Books by

WILLIAM TRUFANT FOSTER

AND

WADDILL CATCHINGS

MONEY

PROFITS

BUSINESS WITHOUT A BUYER

THE ROAD TO PLENTY

POLLAK FOUNDATION FOR ECONOMIC RESEARCH

NEWTON, MASSACHUSETTS, U. S. A.

PUBLICATIONS
OF THE POLLAK FOUNDATION FOR
ECONOMIC RESEARCH

NUMBER TEN

BUSINESS WITHOUT A BUYER

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BY
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AND
WADDILL CATCHINGS

Second Edition, Revised

BOSTON AND NEW YORK
HOUGHTON MIFFLIN COMPANY
The Riverside Press Cambridge
1928

The Riverside Press
CAMBRIDGE · MASSACHUSETTS
PRINTED IN THE U.S.A.

PREFACE TO THE SECOND EDITION

'DURING the past year the problem of unemployment throughout the country has become more and more serious.' That report, which comes to us as we write on this first day of March, 1928, calls to mind what we said, exactly one year ago to-day, in the first edition of *Business Without a Buyer:*

'There is no ground for confidence that our present prosperity will long continue, or even that the gains will prove permanent. . . . The chief economic problem is to discover why business periodically suffers a depression and throws millions of men out of work, and why the net result of all our efforts in this country, for half a century, is so little progress toward steady employment and higher standards of living for the people generally, in spite of the unquestioned fact that our available natural resources, capital equipment, labor-saving inventions, and technical efficiency are far, far beyond anything the world has ever known before.'

Having thus stated the problem, we outlined a theory which, if accepted as a basis of public policy, would suggest a practical means of preventing extreme business depressions and unemployment — a means of continuously using our productive capacity and thereby achieving the goal of 'more pay and less work.' In other words, we proposed adding to our exceedingly efficient system for financing production, an equally efficient system for financing consumption.

At times (we explained in our discussion of the automobile industry) consumption *is* adequately financed, largely because there *chances* to be a sufficient expansion of capital equipment, involving a sufficient expansion of the volume of money, to provide consumers, in connec-

tion with preparation for future production, enough money to buy the output of current production.

Must the world continue to depend on chance? We do not take that hopeless view. 'We are confident' — we ventured to say at the close of this book — 'that we can propose a simple, feasible, and immediate way out of the Dilemma of Thrift — a way to save and thrive — a cure for business depressions — a means of enabling the people as a whole to gain greater and more durable satisfactions out of the marvelous machinery of modern business.'

Our proposed way out — a means of reducing the numbers of the unemployed and increasing the rewards of the employed — is briefly set forth in a new book, *The Road to Plenty*. The program for action which is advocated in that book will give point, we trust, to the analysis of the problem as set forth in *Business Without a Buyer*.

W. T. F.
W. C.

Newton, Massachusetts
March 1, 1928

PREFACE

Business Without a Buyer is an attempt to give, in popular form, the substance of *Money* and *Profits*.

In 1925, when *Profits* was published, the announcement was made on the jacket that a prize of five thousand dollars would be awarded for the best adverse criticism of the book. That offer was heralded as unique. Until a week ago, we thought that it was unique; and then we discovered that, as long ago as 1848, there was published in Edinburgh a book by John Gray, called *Lectures on the Nature and Use of Money*, on the cover of which he offered a prize of one hundred guineas to any one who could refute his theory to the satisfaction of impartial judges. All of which gives another occasion for the remark, 'There is nothing new under the sun.'

Something new, however, seems to have happened within the past year, for whereas John Gray's offer of one hundred guineas failed to induce either economists or business men to come to grips with his argument, the offer of five thousand dollars for the best adverse criticism of *Profits* brought forth responses which, in variety, quality, number, and geographical range, astonished both the authors and the judges. Possibly no other economic doctrine has been subjected, in so short a time, to such determined efforts to destroy it by so many competent persons. Adverse criticisms to the number of four hundred and thirty-five were received from twenty-five countries and from professors of economics in forty uni-

versities. Among the contestants were at least fifty teachers of economics; at least forty authors of books on economics; and at least fifty accountants, architects, engineers, bankers, lawyers, statisticians, editors of financial journals, and heads of business concerns. Included among the writers were some of the ablest men in the Federal Reserve System and in the best bureaus of economic research, an officer of the American Statistical Association, a former president of the American Economic Association, and several of the most highly reputed economists in the British Empire. Many of the essays, moreover, were evidently based upon long and careful study.

The criticisms offered in these essays, numerous and varied though they are, do not exhaust the possibilities; for we, ourselves, have thought of other valid criticisms. However, considering the qualifications of the judges,[1] it is highly probable that the winning essay and those which were given honorable mention do include the most effective refutation of the theory of *Profits* which it is possible to find in the four hundred and thirty-five competing essays.

How effective that refutation is, any one may judge for himself by reading the winning essay and those which were rated next in merit, all of which are now published. For our own part, we cannot see that these essays, or any of the others, weaken the fundamentals of our theory. In fact, we should have to make no change whatever in

[1] The judges were Owen D. Young, of the General Electric Company; Allyn A. Young, of Harvard University, formerly president of the American Economic Association; and Wesley C. Mitchell, of Columbia University, formerly president of the American Economic Association.

the main conclusions of *Profits*, even if we incorporated in the book all the valid criticisms which we have received from all sources. Moreover, it seems to us reasonable to assume that, if there were an important flaw in our main argument, it would have been revealed by this large number of exceptionally able critics. In *Business Without a Buyer*, therefore, we restate our theory, in all essentials, exactly as it was expounded in *Profits*.

We are grateful to our critics for their help — help which certainly could not have been obtained in any other way. These critics have shown us some respects in which we have failed to make our position clear, and some of the irrelevant ideas which are preventing many people from seeing our main ideas. Our critics have also revealed errors in detail, which we shall correct in the next edition. Still more important, they have pointed the way to specific researches which must be completed before anybody can prove or disprove our theory with statistics. They have also told us about books which had not previously come to our attention, at least one of which expresses an idea which we had supposed was original with us. But, as far as we can yet see, none of the criticisms which we have received from the prize essays, or from any other source, reveals a fallacy in our main argument.

The one confusion which seems to have done most to prevent readers from following our argument is the failure to distinguish between *general overproduction* and *specific overproduction*. As long as the expenditures of consumers, taken as a whole, keep pace with the increased output of consumers' goods, taken as a whole,

there is no possibility of general overproduction. That is to say, there cannot be too many goods in relation to the demand for goods. Even under such conditions, however, there is certain to be a relative overproduction of this or of that. There may be, for example, too much cotton in relation to the demand for cotton, or too many tires in relation to the demand for tires. Specific overproduction of that kind cannot be prevented as long as consumers have freedom of choice. Our main argument, however, is not concerned with the means of preventing maladjustments of supply and demand in the cotton industry, or in the tire industry, or in any other industry; but with the means of sustaining the demand for the output of industry as a whole; that is to say, the means of perpetuating 'good times.'

That there are 'good times' and 'bad times,' everybody knows. Everybody is aware, moreover, that, even in 'good times,' some lines of business suffer; and that, even in 'bad times,' some lines of business prosper. Times are good when, for business as a whole, there is a considerable increase in employment, output, sales, real wages, and profits, and when, at the same time, there is no considerable increase in the aggregate of unsold stocks. Whenever such conditions prevail, as they certainly did prevail in the United States from 1923 to 1926, times are good, even though the price-level declines and even though there are some industries which produce more goods than they can sell at a profit. In short, the relative overproduction of this or that commodity cannot bring 'good times' to an end as long as there is no overproduction of goods as a whole.

Once the reader gets that distinction clearly in mind, the next point to remember is that business depressions are caused by general overproduction, and that general overproduction is a purely monetary phenomenon. It could not happen if goods were exchanged directly for goods.

Many of our adverse critics, however, failing to take monetary complications into account, have fallen into the error of believing that general overproduction of goods is impossible.

It is true that production of goods in general over and above the *wants* of mankind is at present impossible. There is no known limit to human desires. The term 'overproduction' is not used in that sense by many of our critics. They are aware that capacity for consuming with satisfaction has always kept far ahead of capacity for producing. That is not true, of course, of individual commodities. The United States alone could produce more shoes than all the people in the world could use; but the United States, even at its maximum capacity, could not more than satisfy *all* the wants even of its own people. Overproduction in that sense is plainly impossible.

The traditional argument against the possibility of general overproduction does not err so crudely. Instead, it makes an error which is more serious because more subtle. How absurd it is — so runs the argument — to imagine that the supply of goods can possibly be greater than the demand for goods! As a matter of fact, demand and supply are one and the same thing. Is it not clear that when Sam Witham drives to the city with a load of hay, the hay is his demand for goods and at the same time

another man's supply? He has added to demand and to supply exactly one load of hay; the balance between supply and demand remains precisely what it was.

To be sure, Sam Witham may sell the hay for money and then spend the money at the harness shop; but we must not allow the real nature of the transaction to be obscured by a mere medium of exchange. We have only to imagine a state of barter to see that nothing really matters in this transaction except its two commodity ends. Sam Witham disposed of a load of hay; he acquired a new harness; what the intermediary happened to be is of no consequence. It is true that he may find a distressing lot of hay already in the market; there may have been a bumper crop; whereas harnesses, which he wants to take home with him, may be comparatively scarce. In that case, there has been a *relative* overproduction of hay. But obviously not all goods can be *relatively* overproduced. Consequently, there can be no such thing as general overproduction. Such is the classical argument, typical of much economic theory in that it concentrates attention on goods and overlooks the effects of money.

It is precisely that conception of money as a 'mere medium of exchange' which has diverted attention from the only possible kind of general overproduction. That not all goods can be overproduced in relation to each other is an axiom. If, therefore, we follow the instructions of some writers and consider nothing but goods, the idea of general overproduction seems absurd. For, as we have said, there can be no such thing in barter markets. If, on the other hand, we consider all that may happen to the

medium of exchange, we see at once that there may readily be a general overproduction of goods *in relation to the money which consumers offer in exchange for goods.* That is the very point we are making. Every business depression is marked by that kind of overproduction.

Some readers may be interested in the sharp conflicts of opinion among our critics. On the one hand are many who declare that there is nothing in *Profits* but commonplace and well-established doctrines. One professor of economics, for example, writing from Cambridge, says that the entire problem over which the authors of *Profits* are needlessly concerned 'was adequately dealt with by Jean-Baptiste Say, and again by Professor Taussig in his *Principles.*' Another professor, writing from New Haven, says that the authors of *Profits*, 'having discovered nothing new, have really discovered nothing at all.' Many critics take the same position. On the other hand are just as many critics who insist that *Profits* is a revolutionary book. One professor says that he cannot accept its conclusions without renouncing much of what he has been teaching for thirty years. Another professor writes that there is no need of telling anybody that the main ideas are radically opposed to orthodox views. 'Everybody,' he says, 'admits that.' Still another professor ventures the opinion that these ideas, if sound, are the most important economic discovery of the century. According to one large group of college teachers, the main ideas of *Profits* are thoroughly fallacious; according to another large group, these are the very ideas which the colleges have long been teaching. Among these sharply

conflicting views are those of distinguished men, including several former presidents of the American Economic Association.

There is no doubt that *Profits* has made the extreme radicals both angry and scornful. To them it is plain that the first half of the book, if accepted as sound, cuts out the ground from under their feet. And the first half *is* accepted as sound by nearly everybody except the extreme radicals. What upsets them is the fact that, having admitted some of the defects of the established order which have been denied by orthodox economists, we show the impossibility of remedying those defects by revolutionary measures.

It is the last half of *Profits*, in which the defects are analyzed, which makes many of the conservatives angry and scornful. Yet it is a fact — and this is the point we want to emphasize — that the last half follows inevitably from the first half. We are unable to see how any one can accept the main premises which are laid down in the first half and refuse to accept the main conclusions which are drawn in the second half.

We intended to follow *Profits* immediately with a book on the way out of the Dilemma of Thrift. Then we decided to let that book wait until we could have the benefit of the prize essays. In the meantime, we were urged to explain the main ideas of *Profits* in a simpler and briefer way. We were glad to make the attempt, because we found that there were some people who really wanted to know the gist of what we had to say, but who — strangely

enough — had resisted every temptation to revel in the statistics and charts and abstract theories which run on through eight hundred pages of *Money* and *Profits*. For such people, we have written this book. In it they will find all the essentials of our argument, explained in a briefer and less wearisome form than it seemed possible to use in our earlier books. Those books were written primarily for students of the dismal science, some of whom would be shocked (as the prize essays show) if by any chance, straying from their sober domain, they should discover how unceremoniously we have here dealt with respected economic theories.

The first two chapters of this book are introductory and easy to read. The next two chapters, though not so easy to read, are indispensable because they give the substance of the theory which underlies the rest of the book. The remaining six chapters show concretely the bearing of that theory on some of the widely discussed topics of the day. Each of the six chapters brings out a single point; each may be read with or without the others. As a matter of fact, all ten chapters are adapted from articles which we wrote before we had read any of the prize essays, and which were published, in 1926 and 1927, in *The Atlantic Monthly*, the *Nation's Business*, and the *World's Work*. All these articles are based on the central theme of *Profits* — a theme which finds its simplest expression in the third and fourth chapters of *Business Without a Buyer*.

Although, as we have said, a reader may choose any one of the last six chapters which particularly interests him, and read that chapter without reading the others, it

is only fair to add that no reader can fully accept the chapter of his choice without accepting the theory upon which it is based, which means that he also accepts the essentials of *Money* and *Profits*. We mention that fact because we have found that some readers fully agree with our article on instalment selling, or our article on the automobile industry, but do not feel prepared to accept our main theory. Other readers declare that what we say about the Federal Reserve System and the problem of stabilizing the dollar is thoroughly sound, but they cannot say as much for the last part of *Profits*. Still others express astonishment that any one who can write such common sense about Henry Ford's policies can write such nonsense about economic theory in general. To all such readers we wish to say that it is not within the realm of logical possibility for them fully to accept any one of the last six chapters of *Business Without a Buyer* and at the same time reject our main theory, for not one of these chapters can be sound unless the theory on which it is based is sound.

It is hardly to be expected that such statistics as there are would establish our theory, because these statistics, having been gathered for other purposes, leave out necessary items and lump together items which, for our purpose, are essentially different. The available data, as we have said repeatedly, are not sufficient. The least that can be said, however, is that the statistics which we have presented in *Money* and in *Profits*, taken together with the statistics which have been presented to us by our adverse critics, are consistent with our argument.

Much more important, in our view, is the fact that our theory is based on what we daily observe to be going on in the actual business world; and with that world we are tolerably well acquainted. Indeed, nothing of major importance that we have said about business practice has been questioned, so far as we know, by any one who is familiar with business practice. If we had more statistics, we might be forced to change our views; but it seems unlikely. We already know in detail, with respect to numerous corporations in widely diversified industries, all the facts that bear upon our main argument; and they all bear one way. Since these concerns are not a selected group with reference to the points at issue, it seems to us incredible that what is true of each and every one of them should not be true of corporations as a whole.

Neither in this book nor elsewhere have we intentionally claimed credit for originality. Credit to all those to whom credit is due will no doubt be given by some future historian. To what extent our theory is original, we have no means of knowing, for we are not fully acquainted with the literature of economics. Our method has been to derive our ideas from business rather than from books. We have not pretended to make a thorough study of previous writings. We have, nevertheless, referred to every book or article of any importance in connection with our theory which has come to our attention.

Now, with the aid of our four hundred and thirty-five adverse critics, we find, as we expected to find, that some of the ideas which we derived from our study of business, and which we had not seen in print, were published before

we began to write. It is a satisfaction to us to make such discoveries. The more, the better. They help us in our first main business, which is the discovery of the truth; and they encourage us to go forward with our second main business — the purpose of our next book — which is to bring about effective action based upon the truth.

Concerning the measures which we shall propose, we must content ourselves for the present with one remark: Almost any reader who makes the effort ought to be able to find all the essentials of our proposed measures in this book. For they are all here, implicitly stated; as indeed they are also stated in both *Money* and *Profits*.

W. T. F.
W. C.

Newton, Massachusetts
March 1, 1927

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BUSINESS WITHOUT A BUYER

CHAPTER I

BUSINESS WITHOUT A BUYER

IS IT POSSIBLE?

WHAT is business without a buyer?

'There ain't no such thing,' says Sam Witham; and Sam ought to know, for he has kept the corner store at Sandwich Center going on thirty years.

Take Sam's own case. There he sits on the bench in the middle of his general emporium, warming his feet at the airtight stove and his imagination at the yarns of the village loungers. There he sits by the hour, discussing the question whether there are more crows around this spring than usual.

In due course, the patriarch of the Solons clears his throat and brings the discussion to an end. 'Seems like it's this way,' says he. 'There ain't so many crows as usual, but they're larger and more numerous.'

'Well,' observes Sam, 'crows may be more numerous, but customers ain't. If I could only sell a few crowbars, I wouldn't care how many crows there were.'

But few people come in, to buy crowbars or much of anything else. So the stocks repose on the shelves and Sam on the bench, collecting dust. All around him are hoes as well as crowbars, shoes and socks, and other goods

in great array, all waiting for customers who do not come. Sam is right: There is no such thing as business without a buyer.

Wherefore a lot of traveling salesmen are laid off. There is no use in sending them around to talk to Sam about ordering more goods, when he cannot sell the goods he has on hand.

Wherefore wholesale clothiers and hardware dealers and shoe dealers and the rest postpone ordering. They do not dare to buy, until there is some prospect that retailers will buy.

Wherefore clothing-makers and tool-makers and shoemakers curtail output, and throw men out of work. They have no inducement to make more goods, when they cannot sell the goods they have already made — no inducement, consequently, to buy more cloth and iron and leather.

Wherefore some of the mills and foundries and tanneries shut down.

So it is everywhere, all the way from mansion to mine, from restaurant to ranch, from filling station to oil field, in every nook and corner of commerce and industry. There is scarcely anybody who is able to go ahead with his part of the world's work. All because there are not enough customers in Sam's store, and in Bill's store, and in stores generally.

Business is waiting for a buyer. It is like an engine house waiting for a fire-alarm. Take a look at the firemen. Some of them are reading the morning paper; some are playing checkers; some are tipped back against the wall, yawning.

Suddenly the fire-bell rings. Every man is on his feet, instantly.

In the engine houses of the business world, a buyer can ring the bell any time; and nobody else can ring it.

You, for example, want to buy the services of a barber; so you step into a shop. At once, every idle barber jumps to his chair, alert, expectant. That little barber shop shows what a buyer means to the whole industrial world.

Once buyers begin to flock into the shops and throw their money down on the counters, the clinking of the coins is heard around the world. The storekeepers hear the merry music first and broadcast it. Even Sandwich Center is heard from. For Sam Witham, who has left the debater's bench, and is now hurrying all day from counter to counter, remains long past supper-time to make out orders for new stocks; and there is never enough static in the air to prevent dealers from hearing that tune. Sam is no longer concerned about the number of crows around the village; he has birds of a different feather to count.

Sam personifies the world of business, brought to life by buyers, galvanized by the current of consumers' money. For the jobbers no sooner hear from Sam and the other retailers than they send larger orders to the wholesalers. Then the wholesalers, not to be left behind, increase their orders to the manufacturers; and the manufacturers, to meet the new demand, take on more workers, and order more copper and cotton, more lumber and lathes, more tin and turbines. All of which induces the miners to dig out more ore, the farmers to plant more cotton, the lumbermen to fell more trees. And all of which is commonplace enough, and would not be repeated here, were it

not that so few people see the significance of the fact that this whole elaborate and far-reaching sequence of activities is set in motion by the customer who comes into Sam Witham's store and buys a crowbar. These activities cannot be started in any other way. When there are enough such customers, in enough stores, buying enough crowbars and enough other things, business is prosperous — always, inevitably — all the way from the retailer to the rancher, *no matter what else happens*. And when there are not enough such customers, business as a whole is far from prosperous — always, inevitably — all the way from the retailer to the rancher, *no matter what else happens*.

It is the buyer for consumption, not the buyer for production, who controls the whole chain of processes. Consumers never stop buying because they fear a slump in the market for producers' goods; producers often stop buying because they fear a slump in the market for consumers' goods.[1]

Enough buyers to take away the current output of finished goods is a project upon which everybody can unite with enthusiasm, for it looks not only to the welfare of the people generally, but to the welfare of each and every class. It has nothing in common with the many schemes for bringing gains to one group at the expense of other groups. Various projects are urged to further the interests of farmers, railroad workers, importers, cotton manufacturers, stockholders, postal clerks, and so on; but here is a project which would promote the welfare of these groups and all other groups. Indeed, if consumer buying

[1] All notes, for all chapters, are in the Appendix.

were adequate, decade after decade, no considerable group of the population could possibly fail to gain some share of the resultant increased output, for most of it would have to be distributed as larger real wages and larger real profits.

Enough buyers for final consumption — that, then, is essential. There can be no progress in Sam Witham's business until sales are 'larger and more numerous,' and that cannot happen until individual incomes at Sandwich Center are larger and more numerous. What is true of Sam and Sam's village, moreover, is true of the entire country.

So the question arises whether the problem of prosperity is not, in the main, the problem of making the flow of money to consumers keep pace with the flow of goods to market, to the end that the corner store at Sandwich Center and stores generally may always be able to broadcast, 'Plenty of buyers and business good.'

That question is the central theme of *Business Without a Buyer.*

CHAPTER II

BUSINESS UNDER THE CURSE OF SISYPHUS

ARE DEPRESSIONS INEVITABLE?

WHAT freedom from economic worries our forefathers would have imagined us to be enjoying to-day, if they could have foreseen the dramatic achievements of the past century in technical processes of production! Even so far-visioned a genius as Benjamin Franklin, could he return, would be overcome with astonishment. Imagine, says Arthur D. Little,[2] the stunning impact of the impressions that would crowd the day of his return. How he would wonder at innumerable machines of a precision and power far beyond the imagination of his time! In place of the Leyden jar, he would find thirty million horse-power generators, enabling us to perform with ease countless services which in his day were but clumsily and arduously performed, or more likely not performed at all.

If he were to revisit England, instead of spending ten weeks on a sailing packet, he could go in less than a week on a fifty-thousand-ton ocean liner, oil-fired and turbine-driven. If he wished to go from England to the Paris that he loved, he could fly there. Instead of the wooden frigate with its little smooth-bore cannon, he would find a super-dreadnought, whose armament alone was vastly greater than that of the entire British Navy of his time.

He would hear of Pasteur and Loeb and Ehrlich, of anæsthesia and antisepsis; and he would learn how the productive years of human life have been lengthened.

Elements unknown to him would be placed in his hand. The air would be reduced before his eyes to a liquid, boiling on a cake of ice. Under the microscope, he would see a new world. Household economics, too, he would find revolutionized by electricity, the servant in the house.

He would learn of soil analysis and seed selection, of hardier and more prolific plants, of better breeds of animals, of ways to control splenic fever and anthrax, hog cholera, bovine tuberculosis, and of many ways of making two — or even a dozen — calories of food grow where one grew before. He would find his own experiments with gypsum extended to cover a new wealth of chemical fertilizers, the very air converted into plant food, and the productivity of farm labor multiplied many, many times by ingenious machines. That is only a glimpse of the picture which Mr. Little and others have painted of the marvels that would confront one of the founders of the Republic, if he could but see his country to-day.

Our greatly increased productive capacity

What all that means to the growth of productive capacity, we can begin to understand if we allow our imagination to play upon even a small part of the hundreds of labor-saving devices now in use. In the steel industry two men, unloading with the aid of machinery, now replace from twelve to twenty men, unloading by hand; in furnace-charging two men, by the use of skip-hoist, lorry car, and automatic weigher, replace fourteen; in pig-iron casting, seven men replace sixty; in open-hearth operations, one man replaces forty; twelve men, with traveling cranes, do the pouring of thirty-seven; and two men, unloading

pig-iron with electric magnet and crane, replace one hundred and twenty-eight.

The clothing industry has made similar progress. Six men with two boarding-machines replace twenty; and one girl, operating six rib-cutting machines, does as much work as twenty-five formerly did by hand. In shoe factories, one lasting-machine does as much as from six to ten hand-workers. And it is probable that only the lack of consumer demand has delayed the introduction of still more effective machines, which have already been invented.

In other industries the possibilities of increasing productivity are equally great. One operator can now care for more cotton looms than fifty could manage in our grandfathers' time. A bottle-making machine now does the work of fifty-four men, and a window-glass machine the work of twenty. Two men, by the use of a conveyor, now unload as much coal as fifty unloaded formerly; and two operators, with a cigar-making machine, turn out as many cigars as fifteen can make by hand. With the aid of wrapping-machines, which are constantly being adapted to new uses, one operator does the work of five or ten, or even — as in the making of cigarettes — fully one hundred. Indeed, such labor-saving inventions are now so common that marvelous new ones, which are constantly coming into use, scarcely have news value. Astonishment is expressed only when anybody is found working as inefficiently as men worked a generation ago.

Standards of living have not increased proportionately

Nevertheless, in spite of all these Aladdin-like achieve-

ments in technical processes of production, and in spite of all the discoveries of new resources, the gains which we make, decade after decade, in the distribution of wealth to the people generally are not at all comparable to the gains which we make in our knowledge of the means of producing wealth. In the highly prosperous year 1920, the average of the annual wages and salaries for all industries was only $1367.[3] Even in building and construction trades, in transportation, in factories, in commerce, and in finance, the average in no group exceeded $1645. In the following year, average pay of workers in all industries fell to $1121. Nearly everybody knows just about how much, or rather how little, can be bought with such incomes.

What, then, shall we say of the wages in domestic and personal services, which even in 1920, on the crest of the wave, and with board and room included, did not reach $1400 a year? And how can we expect farmers to be contented, when the average annual wage of farm workers appears to have been $486 in depression, and only $582 in prosperity?

All our wage figures, moreover, tell only half the story. The other half is that comparatively few workers have any assurance that they will long be able to earn even as much as they are now earning.

Further statistics are unnecessary. Wage-earners know from daily experience, and without elaborate statistics of any kind, what the progress of science has brought to them in standards of living and in security of the job.

It is true that if Benjamin Franklin could see his country now, he would be amazed to find everybody en-

joying electric lights, telephones, automobiles, radio sets, the Vitaphone, not to mention the countless offerings of the five-and-ten-cent stores, which were unknown in his day. But if he got close to the hearts of the people, as was his wont, he would be equally amazed to find that, in spite of the achievements of applied science, the great majority of the workers face the future with anxiety, uncertain as to employment, and unprepared for sickness or old age. As a matter of fact, in the quarter-century preceding the World War, a period of astounding advances in the science and art of production, the workers as a whole increased their real wages scarcely one half of one per cent a year.[4]

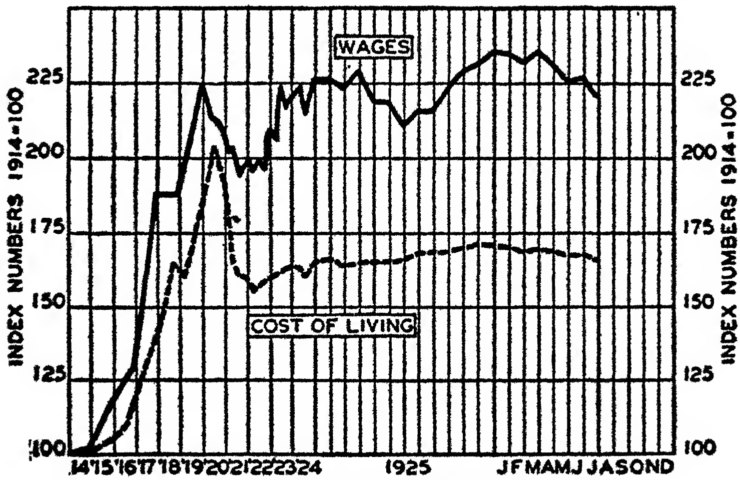


FIGURE 1. GAINS IN REAL WAGES, 1914–26

In the years 1915–25, it is true, unusual gains in the production of wealth were made in this country, and these gains actually were widely distributed in the form of

higher real wages. (See Figure 1.) The causes of that prosperity we shall discuss in later chapters. All we wish to point out here is that there is no ground for confidence that such an advance will long continue, or even that the gains will prove permanent. Incidentally, it should be observed that, while these gains have been made in the United States, Great Britain has suffered from unemployment more keenly and more protractedly than ever before.[5] (See Figure 18, page 91.)

It is no wonder that the various commissions which have come from England to study our economic conditions have been impressed with our recent prosperity. They see the evidence on every hand: unprecedented freight-car loadings, building operations, bank clearings, savings, profits, benefactions; even more obvious, and certainly more startling, the clothes we wear; and, most amazing of all, mile after mile after mile of automobiles.

'Such achievements,' our visitors say, 'seem to show that "more pay and less work" is a reasonable aim.'

Yet, in the midst of all these manifestations of wealth, there are fears of a business recession. Bankers, statistical agencies, economists, and business magazines in large numbers issue warnings. It is folly, they say, to assume that the country will continue to ride along on the crest of this recent advance, without a fall. That would be to assume that the slumps which have characterized business in the past will not occur in the future; to assume that at last the causes of business depressions have been discovered and removed. Yet no one is able to show that this is a fact, and few business men believe that it is a

fact. They declare, on the contrary, that such prosperity cannot continue indefinitely. In every Chamber of Commerce, men are shaking their heads and saying, 'Business is too good. This cannot last long.'

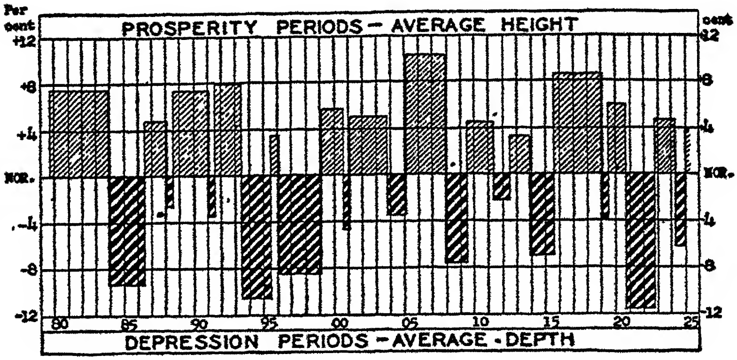


FIGURE 2. UPS AND DOWNS OF BUSINESS, 1880–1925
(From Cleveland Trust Company *Business Bulletin*, April 15, 1925)

Must prosperity always breed depression?

Why not? Must prosperity always breed depression?

Sisyphus, according to Greek mythology, was condemned to go on for all time, rolling to the top of a steep hill a huge stone which, as soon as it reached the top, always rolled down again. Must business forever suffer under the curse of Sisyphus?

That, it must be admitted, is an unsolved problem. There is as yet no agreement among business men, or bankers, or economists, concerning the causes of periodic business depressions and the enforced unemployment of millions of workers.

Theories there are in abundance.[6] Long ago, a laborious German scholar, with characteristic thoroughness, assem-

bled and classified two hundred and thirty theories of business cycles; and the production of new theories has since gone on apace. If any one had time to read all these explanations, he would find that the cause of depressions is capitalism, interest charges, tariffs, taxation, the gold standard, unbalanced industries, unearned increment on land, production for profit, the Republican Party, militarism, sun spots, the movements of Venus, and so on. It is not too much to say that if any one of these theories is sound and adequate, all the other theories must be somewhat defective.

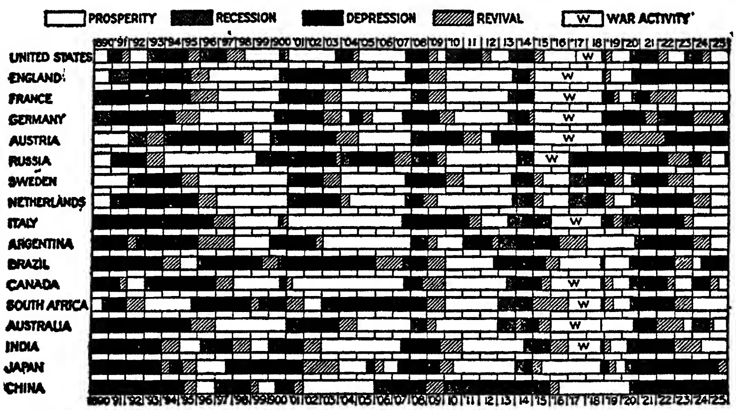


FIGURE 3. UPS AND DOWNS OF BUSINESS IN 17 COUNTRIES
(Data from *Business Annals*, New York, 1926; copyrighted, 1926, National Bureau of Economic Research, Inc.)

As a matter of fact, no careful student of the subject fancies that any one of these explanations fully accounts for what happens. Certainly, no one of them has pointed a way to anything remotely approaching a solution of the problem. And as long as there is no accepted explanation

of causes, either among theorists or among men of affairs, there is no prospect that effective measures will be taken toward removing the causes.

Moreover, the problem of recurrent business depressions is only one phase of a much larger problem. Possibly we ought to be content to suffer these periodic setbacks, if the net result of good years and bad years, decade after decade, were as great gains in economic well-being as could reasonably be expected. But they are not. Compared with the almost incredible advances in our knowledge of how to produce wealth, our failure to produce more than we do seems equally incredible.

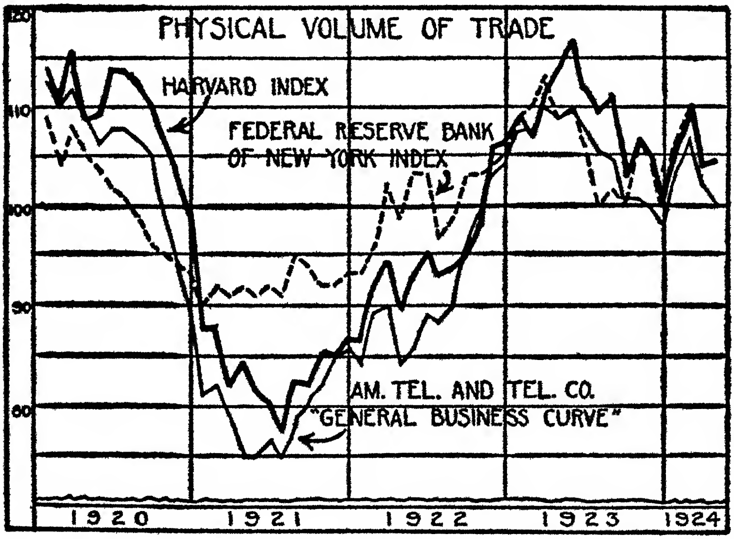


FIGURE 4. SLUMP OF BUSINESS IN THE DEPRESSION OF 1921

Now, in order to see the relation of all this to the most serious social and political problems of our time, one must

consider the fact that the only insistent demand which the people make of organized society is steady work and gains in real wages. Comparatively few people desire workers' control of industry, or a capital levy, or radical changes in the form of government, or the abolition of private banking, or the overthrow of the established profit-making economy. Indeed, most people have only a casual interest in theories — social, political, or economic. They have a dynamic interest in real wages. Everybody wants security of the job and more pay; that is to say, an opportunity to work and assurance that the opportunity will not be suddenly taken away, and the further assurance that work faithfully and intelligently performed will lead to shorter hours and larger material rewards. 'More pay and less work' is the goal.

As long as that end is achieved — and a lower aim is indefensible — there is no danger of revolutionary upheavals, no chance for fomenters of class hatred to get much of a hearing. Prosperous people do not revolt. If virtually all the men and women in England who wanted to work had been able to find jobs, and if their labors had yielded them more and more of the good things of life, the call for a general strike would have fallen on deaf ears.

The chief economic problem, therefore, is to discover why business periodically suffers a depression and throws millions of men out of work, and why the net result of all our efforts in this country for half a century is so little progress toward steady employment and higher standards of living for the people generally, in spite of the unquestioned fact that our available natural resources, capital

equipment, labor-saving inventions, and technical efficiency are far, far beyond anything the world has ever known before.

How long must business suffer under the curse of Sisyphus?

CHAPTER III

UNDERCONSUMPTION AS A BASIC CAUSE

WHY MAY WE NOT CONSUME AS MUCH AS WE CAN PRODUCE?

WHY, then, do we not make greater progress? [7]

The first answer to that question we have just set forth at length. It is because we do not use our vast productive resources — our men, materials, machines, and money — at any approach to capacity. We do not 'deliver the goods.'

Why not? We do not produce the goods which our marvelous resources would otherwise enable us to produce, because we fear that we cannot sell the goods at prices which will make continued production possible.

And the reason we cannot sell the goods is the simplest reason of all. It is because the people who would like to buy them do not have sufficient incomes.

What causes the lack of money? Here we come to a question which is not so easily answered. It appears, however, that there are two main reasons why people cannot long continue to buy things as rapidly as they can make them. The first reason is that the processes whereby goods are produced for sale at a money profit do not yield to consumers enough money to buy the goods. As industry increases its output, it does not, for any length of time, proportionately increase its payments to the people. Consequently, whenever the country begins to prosper, the total flow of money to consumers does not

keep pace with the flow of consumers' goods. The second reason for a deficiency in consumer buying is that the people, under the impelling necessity of saving, cannot spend even as much money as they receive.

How, then, can we conserve prosperity and sustain employment? Clearly, there is one means, without which all other means are largely futile. We must see that the people receive enough income (as wages, interest, dividends, and the rest) week in and week out, and not very much more than enough such income, in addition to what they save, to buy all the finished products of home industry, or the full equivalent in foreign goods, about as rapidly as they are ready for sale. In the future we must provide as effectively for financing consumption, as in the past we have provided for financing production. The gist of the matter is this: Since underconsumption is the chief cause of our troubles, adequate consumer income is the chief remedy.

Thus, in five brief paragraphs, we have summed up our theory.

An aside, by way of introduction

That is not the whole story, of course. There are many qualifications to what we have just said, many exceptions to economic laws. Industrial ills are numerous; a single cause cannot explain them, nor a single remedy cure them. That we know full well. In fact, we wrote a book on *Money*, before we felt prepared to draw the above conclusions; and then we wrote a book on *Profits*, in order to show some of the reasons which seem to warrant those conclusions. Here we can do no more than sketch our

views in broad outlines, without the supporting evidence. But in *Money* and in *Profits* we have filled in the outlines with much detail. There we have pictured the actual money-and-profit world in which most of us — with entire good will, but with increasing perplexity — live and labor, hope and save; the world of business in which we struggle, on the whole with but meager success, to gain for our children more of the good things of life. To those two books we refer anybody who wants to follow the subject in various directions. There he will find much statistical evidence, insufficient for our purposes, to be sure, but pertinent and suggestive of certain directions which future research may well take.

In those books we have shown the futility of seeking to solve economic problems by means of revolution — the impossibility of raising real wages by destroying what are now the main incentives to productive effort. Security of private property, reward for individual initiative and achievement, the prospect of profits — these are and must long remain the chief urge, though by no means the only urge, to economic activity.[8]

The future economic structure will have to be built, with infinite pains and with the aid of far better statistics than we now have, slowly, year after year, stone upon stone, upon the present foundations. That is the proved process of human progress. To blow up the house in which we live, before we have even working plans for a better one, is the way of retrogression. In any event, it is folly to destroy the real structure that toiling generations have reared and attempt to build a new one upon a foundation of untried theories, until we know a great

deal more than we now know about the structure that we seek to demolish; until we know how it was designed and why; how much it has done for our comfort; how much human suffering it has caused; how much is due to other factors; and what weaknesses, if any, are inherent, and cannot be remedied by any treatment less violent than dynamite.

Another point we should make clear. We have nothing to say here about the relative shares of individuals in the products of industry, not because we do not keenly desire a more equitable distribution of income, for we do; but because we believe that a better *distribution* of income will be more easily attained as soon as a way has been found of making the *totality* of income sufficient.

There is still another point which the reader should call to mind in connection with every chapter. We are here concerned only with *general* overproduction; that is to say, the production of goods, in the aggregate, beyond effective demand. Nowhere do we discuss the problem of *relative* overproduction — the problem that confronts any one, even in a period of general prosperity, who turns out too many bales of cotton, or snowshoes, or crossword-puzzle books. The business world can no more escape such mistakes than it can escape human nature. At all times, the output of some things is certain to be too large in relation to the output of other things. Even when output as a whole is right in relation to demand as a whole, and the price-level is maintained — when, in other words, there is no *general* overproduction — the demand for certain products does not keep pace with the supply. There is *relative* overproduction of those pro-

ducts. That is unfortunate, but it is not the problem with which the Dilemma of Thrift confronts us. Throughout this book, we are concerned with the means of protecting producers from a slump of business in general, due to a net deficiency of demand, rather than with the means of protecting producers from troubles which are peculiar to their individual industries.

The other terms which we shall use all seem to be sufficiently clear for the general reader except, possibly, the term 'money.' We use that word always to cover both currency and bank deposits subject to check.

So much by way of introduction. For the rest, all we shall do is to enlarge a bit on each of the five brief paragraphs with which we started.

The country suffers from chronic underproduction

First of all, then, let us set down the unquestioned fact that the entire country now suffers from chronic underproduction. Even in years of greatest prosperity, industry falls far, far short of using its resources, human and material, to produce all that might readily be produced. No workman needs any proof of that point. He sees the evidence on every hand. He readily accepts the conclusions of industrial engineers that the country could increase its output fifty per cent, with nobody working more than eight hours a day, if the employers and the employed had sufficient incentives to do their best and to keep on doing it.

During the War that was proved over and over again in numerous countries. In the United States, even after the Army and Navy had withdrawn from productive ef-

fort more able-bodied men than the entire membership of the American Federation of Labor; even after millions of other workers had been diverted to the making of munitions and wooden ships — efforts which from the standpoint of society were worse than wasted; even with the resultant sudden dislocation of industry; still, the workers who were left produced so much that they not only furnished the goods that were sunk at sea and otherwise destroyed in the wreckage of war, not only supplied millions of fighters and civilians abroad, but had enough left to enable the people at home to enjoy at least as high a standard of living as before the War. And what was true of this country was even more conspicuously true of England.[9]

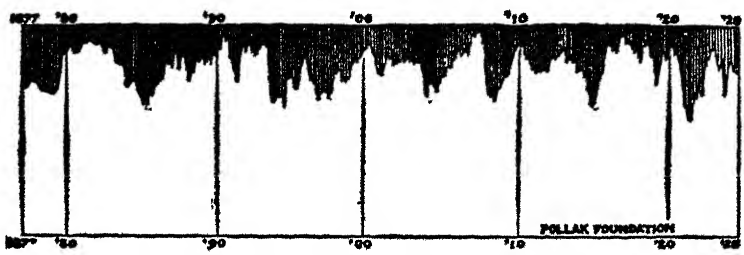


FIGURE 5. LOSSES DUE TO BUSINESS DEPRESSIONS, 1877–1926[10]

That our incapacity to create more wealth is not the reason why we produce so little is also shown by the heights which production has now and then attained even in time of peace. If business in the United States had been sustained at the level which it has actually reached from time to time, as shown in Figure 5,[10] a far higher standard ot living would have been possible. This picture shows at a glance that great material losses have resulted

from industrial depressions. The line between the dark area and the light area indicates fluctuations in productive activity. The white area represents roughly the volume of production and employment; the dark area, the volume of unemployment and consequent loss in production — the effect of 'business without a buyer.' If the entire period had been as prosperous as its best years, the entire area would be white; the substantial economic losses represented by the dark area would have been avoided. Clearly, then, we have understated the case; for the 250,000 persons in the United States who have the largest incomes — and this includes all those who have taxable incomes of over $10,000 — do not receive an amount equal to the losses shown in Figure 5, losses due to our failure to keep business going at the rate which we have already demonstrated is a human possibility, with human beings as they are.

What a challenge is this to the imagination! Evidently, within a single generation, we could all but abolish poverty in this country, among those who were willing to work, if we could keep at peace with the world and continue to use our resources, human and material, even as effectively as at times we have already succeeded in using them.

That fact is challenge enough; but still more startling, in the hopes it holds out for the future, is the fact that even in our best years, we have fallen far short of using our productive resources at any approach to capacity.

After all, nobody questions the fact that standards of living depend mainly on volume of production. There is no way of enabling any one to buy potatoes which are

not raised, or shoes which are not made. Nothing we can do to wages or profits will benefit us much, unless the net result is increased output. Moving wages up no faster than the cost of living gets us nowhere. The American Federation of Labor is right in declaring that 'the practice of fixing wages *solely* on a basis of the cost of living is a violation of sound economy, and is utterly without logic or scientific support of any kind.'[11] All arbitrary wage awards are economic nonsense. Nothing we can do to wages will enable every one to obtain ten bushels of wheat if the per-capita production is five bushels.

Now if it be true, as all the evidence shows, that we fall far short of realizing our productive possibilities even in our best years, what shall we say of our worst? Consider, for example, the spectacle of 1921! Machines, materials, men, we had in superabundance; hungry mouths to feed and every means of feeding them; willing hands to work and plenty to work with; and at the same time a monetary system wholly subject to human control. Yet — incredible as it would seem, if we had not suffered from these paralytic strokes of industry time and again — no immediate means could be found of bringing machines, materials, men, and money into such relations that they could go on with the world's work.

The cause of underproduction is underconsumption

Why not? Why was the whole vast machinery of industry clogged with overproduction, when millions were suffering from underconsumption?

Underconsumption — there, in a single word, is the answer. Goods are not consumed unless they are sold;

and unless they are sold, employers cannot long continue to produce them. No matter how able an employer may be — no matter how unselfish and sympathetic — he is forced to curtail production, unless he can sell his product at prices sufficient to cover his costs. That is a compulsion of the established economic order for which he is in no way responsible. In this money-and-profit world in which he has to do business, and which is the only economic order yet discovered which is at all workable on a large scale, consumption regulates production.

No man who has to run an automobile has any doubt where the power comes from. He knows that it does not come from the glaring headlights, or the plate glass, or the intricate mechanism under the hood, or even his own enthusiasm. It is gasoline that makes the wheels go round. Nor does any man who has to run a business imagine that the driving force is billboards, or show windows, or the complicated machinery in the factories, or even his own optimism. He knows that nothing but money spent by consumers can make the wheels of business go round.

So the fear that consumption will not keep pace with production — the fear of overproduction — restricts the output of goods.[12] That fear is expressed by Herbert Hoover: 'I believe,' he says, 'that we have to-day an equipment and a skill in production that yield us a surplus of commodities for export beyond any compensation we can usefully take by way of imported commodities.'[13] Carter Glass points to the same difficulty when he says, 'During the depression of 1921, building was reduced to a minimum, road construction was stopped, furnaces from one end of the country to the other were banked,

unemployment to a frightful extent ensued; and all this for no lack of credit facilities, but for the lack of markets in which to sell the products of farm and mill and factory.'[14]

Lack of markets — underconsumption — overproduction: three names for one fear, the fear that haunts business men the world over.

Some men seem to think that the glutting of the markets and the resultant periodic depressions, like the movements of the heavenly bodies to which they are sometimes attributed, are foreordained. Indeed, so ingrained and so common is this conviction that, no matter how widespread and indisputable prosperity may be, no matter how favorable all the conditions may be which are commonly regarded as fundamentals, nevertheless nearly everybody looks for a recession. In 1925, for example, the whole economic structure was thought to be remarkably sound. Never before, it was agreed, had there been a more promising combination of the factors that are said to make for prosperity. The political situation was gratifying; business seemed assured of several years of comparative freedom from Government interference. The agricultural depression was over. Commodity stocks were not excessive; there had been little forward buying. Real wages had increased rapidly, and labor conditions were unusually good. The European situation was much better; the railroad recovery was remarkable; capital equipment was greater than ever before; and the volume of production was steadily increasing. Most important of all, there was an efficient Federal Reserve System, abundant bank credit at low rates, and gold reserves in

superabundance. Business men generally could not see a cloud in the skies. Nevertheless, economists, bankers, trade journals, and statistical agencies with one accord warned the business world to be prepared for bad weather.

Not merely — let us note carefully — because they feared *relative overproduction* of this or of that — though there are sure to be such maladjustments — but because they feared an *overproduction of goods in general*, an output not merely beyond the buying capacity of consumers at home, but beyond the buying capacity of the world. Everybody agreed that the economic aim of society is increased production, yet the very fact that society was beginning to succeed was regarded as proof that it was about to fail.

How different from the world in which Benjamin Franklin conducted business! Not for a moment was productive activity restrained in his day for fear that no way could be found of consuming the goods. The fear of general overproduction, as it worries and dominates the business world to-day, did not curtail progress until industry had developed the distinctive features of our modern bank credit and profit system.

Capital, labor, and the State fear overproduction

Under that system, employers of labor have no choice. Convinced that the markets cannot absorb all that can be turned out, they must curtail production. Laborers, as well, convinced that the more productive they are, the sooner they will be out of work, contrive by various means to limit output. Other motives, it is true, prompt them

to slow down; but the dominant motive is the fear that the markets cannot take all that can be produced at prices which will make it possible for employers to continue to turn out goods. Wherefore, with unemployment looming before them, laborers resort to rules, intimidation, and *sabotage*, in order to postpone what appears to be the inevitable glutting of the markets. To what extent this reasoning of employers and workers is unsound and their practices folly, we are not for the moment considering. We are merely calling attention to the fact that they agree upon the necessity of taking measures to avoid overproduction.

Not only do labor and capital thus combine in every great industrial nation to declare their belief in a limited market, but the nations themselves, in their commercial rivalries, their protective tariffs, and their struggles for trade concessions, also show their fears that the markets of the world cannot absorb all that the world can produce. That is, at bottom, the meaning of Germany's insistence, at the outbreak of the World War, that she must have 'a place in the sun.' If there were any guarantee in money markets, as there is in barter markets, that world demand would approximately equal world supply, and if each nation accordingly endeavored to send abroad only what it could produce to the greatest advantage, in order that it might receive in return as much as possible of what other nations could similarly produce, there would be no occasion for such bitter struggles for markets. Exchange would take place naturally among nations, to their obvious, common advantage. But when the buying power of the world is far below the world's productive capac-

ity, 'cut-throat' competition, leading again and again to war, seems to be the inevitable result.

Thus capital, labor, and the State, each in its own way, and each without definite ideas concerning the cause of the trouble, expresses its conviction of a limited market, its fear of general overproduction, its understanding of the fact that there is no such thing as business without a buyer.

Underconsumption is due to lack of consumer income

But why is it impossible for people to consume an increasing volume of goods as rapidly as they can produce the goods?

In the whole perplexing realm of economics, no other question perplexes so many people. The wide diversity of answers by statesmen, economists, and social reformers — ranging from bank credit to the profit motive, from immigration to irreligion, and from unbalanced industries to sun spots — shows that even those who regard themselves as specialists in the field are nonplussed. Little wonder, then, that the man in the street is bewildered. To him nothing is more incomprehensible than the fact that with millions of people in dire poverty, with millions more in want of the minimum requirements for comfort, health, and security, with scarcely a man, woman, or child who is not eager for more of the good things of life, the industrial world stops short of creating the good things well within its power to create, because of the ever-imminent danger of creating too much. Consumers in constant fear that they cannot get enough, and producers in constant fear that they will produce too much!

To that riddle, as we have said, there is only one conceivable answer. The goods cannot be sold because the people who want to buy them lack the money. No wage-earner needs to take a course in economics to comprehend that point. He knows that his wants and the wants of his family grow at least as fast as his wages; and the only reason why he does not consume more of the 'surplus' products of industry is because his income does not grow fast enough. If he was sure of an extra ten dollars a week, he would buy that new coat for his wife, or that bicycle for his boy, or that rug for his house, or whatever it is that he especially wants, but cannot now afford to buy.

There are sure to be enough customers, as long as they receive enough money, for the wants of the people as a whole always grow faster than their incomes. The rate at which people spent their increased wages and dividends during the War is sufficient proof; though most of us need no other proof than our personal experience. In this day of high-powered automobiles and high-powered advertising, cheap daily papers and rural free delivery, motion pictures and radios, people have no difficulty in hearing about things they want to buy. Nor do they reduce their buying merely because they cannot find leisure time in which to spend their money. Their only difficulty is in finding the money to spend. (See Figure 6.)

The view commonly expressed that the surplus stocks and the business depression of 1921 were caused by a 'consumers' strike' is nonsense. All the evidence is quite to the contrary.[15] Indeed, the fact that wages in 1921 fell about seventeen per cent below the wages of 1920 — a

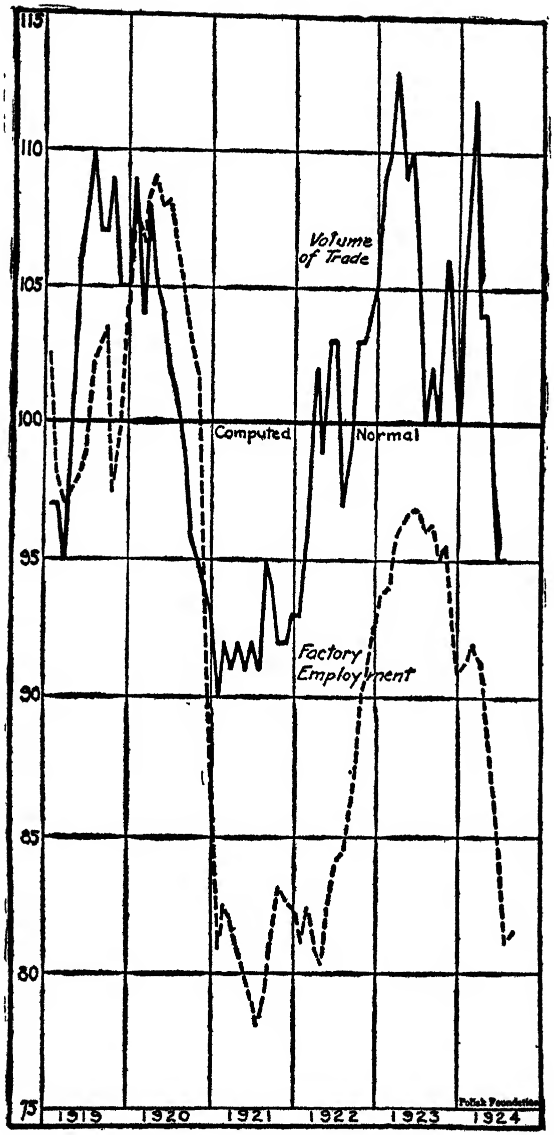


FIGURE 6. VOLUME OF TRADE IN RELATION TO VOLUME OF FACTORY EMPLOYMENT

(Volume of trade index is from Federal Reserve Bank of New York. Employment index is a monthly index of factory employment, devised by William A. Berridge)

reduction of more than seven billion dollars — is explanation enough for the falling-off in consumer demand. People who 'refuse' to buy because they have no money should be compared with the unemployed rather than with strikers.

One phase of business activity in recent years which seems to show that the people can produce more goods than they are able to buy and pay for, is the growth of sales on instalments. Everybody sees the evidence every day — automobiles, houses, furniture, clothing, books, pianos, washing-machines, oil heaters, electric refrigerators, in growing profusion, all offered on easer and easier terms.

There is no doubt of our ability, as producers, to create all this wealth. There it is before our very eyes — at least three billion dollars' worth already produced and turned over to consumers on instalment sales, in excess of what they have paid for. And there is no doubt of our inability, as consumers, to pay cash for all this wealth. Dealers would not be frantically underbidding each other in their efforts to sell all this wealth on small initial payments if buyers had enough money to make full payments. The very fact that the business world cannot get rid of what it has already produced, even in years which are regarded as highly prosperous, without persuading the people to mortgage their incomes further and further into the future, suggests the possibility that the flow of money to the people who want to buy goods does not keep pace with the flow of the goods. But of that, more later; the subject of instalment selling deserves a chapter of its own.

The flow of money to consumers depends mainly on productive activity; but productive activity depends mainly on the flow of money to consumers. Where are we to break into this circle in order to find the place where influence should be brought to bear to sustain prosperity? Evidently, wherever we can increase consumer demand; for if we increase productive activity without proportionately increasing the flow of money to consumers, prosperity is short-lived; but if we increase the flow of money to consumers in proportion to increased productive activity, prosperity can continue.

This view is contrary to all the theories that ascribe business depressions mainly to states of mind. It is at variance with the widespread belief that, if a sufficient number of people talk prosperity with sufficient enthusiasm, they can bring on a commercial revival that will be sustained by its own momentum. This sunshine cure for business anæmia is a quack remedy, because it takes no account of the function of the buyer in stimulating business and the only conditions under which he can continue to buy. Artificial respiration cannot keep the patient alive indefinitely. Neither can a spirit of optimism long create or sell commodities; it cannot operate a blast furnace or take shoes off the retailer's shelves. It must first put enough money into consumers' hands. Indeed, to persuade business to prepare for a consumers' demand that is not forthcoming merely makes matters worse. At best, optimism can do no more than start a forward movement a little earlier than otherwise it would have started. Business cannot run on optimism; reactions soon occur unless expectations are justified by sales. A

self-starter may save time in starting an engine, but only a steady supply of gasoline can keep it running.

It is true that confidence and rising prices and increased purchasing power have intricate causal relations; each sustains the others and is sustained by them. It is easy, however, to overestimate the importance of confidence. Confidence cannot continue to increase the purchasing power of consumers if the gold reserve, or the financial policies of corporations, or any other factor checks the growth of the volume of money in circulation. Indeed, even when the volume of money is expanding, confidence cannot enable consumers to buy an ever-increasing output, unless industry disburses money at the right rate. In short, prices and confidence *cannot* rise far without the support of continued increases in consumers' purchasing power; but continued increases in consumers' purchasing power *can* continue to lift the levels of prices and confidence.[16]

At times, as we shall see later, confidence in the business outlook does bring about immediate additions to consumer income. For confidence leads to the expansion of capital equipment and of output, to the accumulation of commodities in all stages of production, and to forward buying and the stocking of shelves, all of which immediately add to the income of consumers without immediately appearing to result in overproduction. For a while, therefore, business is good; but that kind of prosperity cannot last long because, as we shall try to make clear in the next chapter, its own financial processes do not yield consumers enough money to buy the resultant output.

We started out with the question why this country has made so little progress toward steady employment and higher standards of living, in spite of the unquestioned fact that our available natural resources, productive equipment, labor-saving inventions, and technical efficiency are so far beyond anything the world has ever known before. The cause, we have found, is underproduction. The cause of underproduction is underconsumption. The cause of underconsumption is lack of money. The next question is, What causes the lack of money?

CHAPTER IV

THE DILEMMA OF THRIFT

MUST SAVINGS RETARD PROGRESS?

WHAT causes the deficiency in the flow of money to consumers? That is the first question we have met which offers any difficulty. The answer, however, is as simple in all essentials as grammar-school arithmetic. Any one can understand it, who can see that ten minus nine is less than ten.

It is plain, to begin with, that in the United States industry has no source of income except consumers, and consumers have no source of income except industry. (See Figure 7.) That is to say, the entire costs, all the way from the producer of raw materials to the retail dealer, and all the profits, if there are any profits, must be covered by what consumers pay for the goods. On the other hand, consumers can pay for the goods no more money than they have received from these same producers and distributors of goods.

Consequently, if industry turned over to consumers (as wages, rent, interest, dividends, and the rest), all the money it received from consumers, and consumers spent all this money, industry could go on forever selling a given output of goods at a given price-level. Overproduction — or, as we prefer to call it, underconsumption — would be impossible.

All that seems clear enough. There is, in fact, a circuit

flow of money from producers to consumers, and from consumers back to producers. Everybody knows, moreover, that this stream is not fed by providential cloudbursts. Nobody expects money to fall from the skies like manna. Nevertheless, business men in pursuit of profits do expand production on the naïve assumption that, through some miracle, industry will contrive to get from consumers

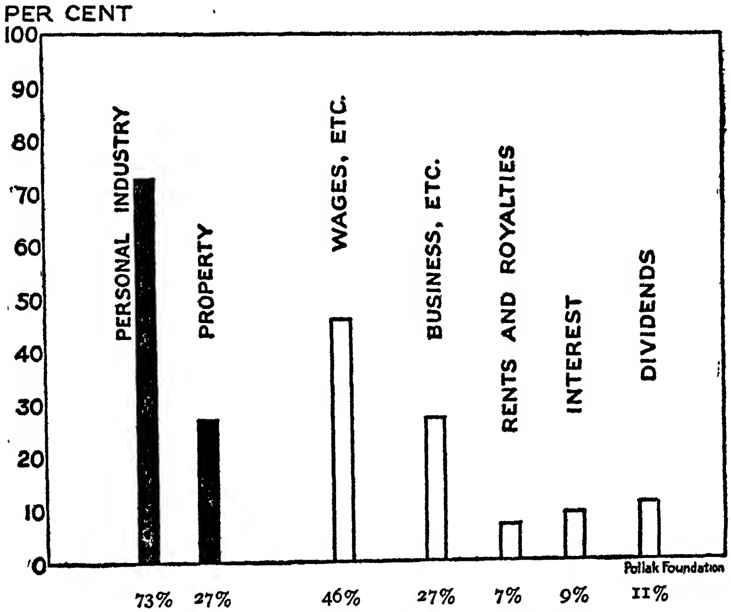


FIGURE 7. SOURCES OF PERSONAL INCOME
(Data from United States Treasury Department, *Statistics of Income from Returns of Net Income for 1924;* p. 33)

more money than it gives to consumers. And when the money is not forthcoming, the deficiency is explained as 'sales resistance,' a 'consumers' strike,' a 'psychological reaction' — any reason at all is given except the perfectly

obvious reason that people cannot pay for more goods without more money.

Ask any business man. He will probably tell you that the process of financing the making and distributing of goods 'automatically' yields to consumers enough money to buy the goods.[17]

Now the chief trouble is that it does no such thing.

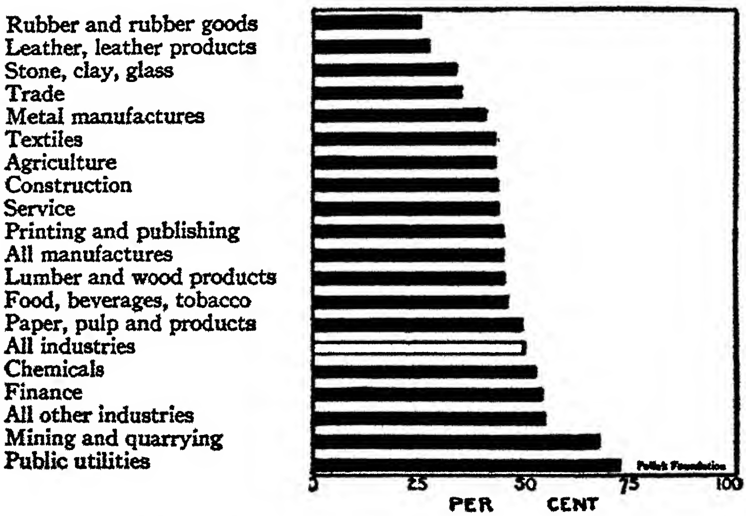


FIGURE 8. CORPORATE SAVINGS BY INDUSTRIAL GROUPS

Proportion of Net Book Profits Disbursed by Various Corporations in the United States in 1922

(From Senate Document Number 85, 68th Congress, First Session, *Distributed and Undistributed Profits of Corporations*. Chart includes all corporations reporting both net taxable income and net book profit by the year)

Let us assume, for example, that you are a manufacturer. Do you plan to disburse, in the conduct of your business, as wages, interest, rent, and all other costs, as much money as you expect people to pay for your product? If so, you are not in business at all; you are in

philanthropy. But if you really are in business, and making a success of it, you receive from the sale of your output more money than you expend in producing it. In other words, you do not put into the hands of consumers enough money to enable them to buy the goods which you put into the markets.

Do you happen to know any one who does? In the entire wide range of those with whom you do business, can you think of anybody who makes it a practice to pay out as much money as he takes in? Among your acquaint-

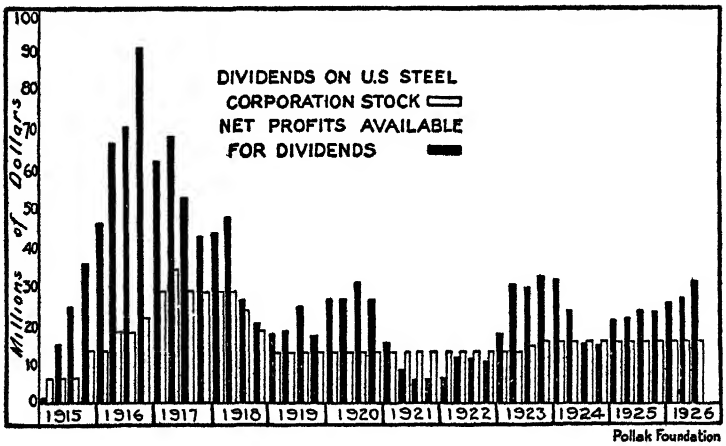


FIGURE 9. DIVIDENDS OF THE UNITED STATES STEEL CORPORATION AND PROFITS AVAILABLE FOR DIVIDENDS, 1915–26
(From Annual Reports of the Corporation)

ances are men engaged in almost every conceivable line of business. Run over the list. Every one of them, as you know perfectly well, takes great precautions to keep his costs below his selling prices. Every one of them is, in fact, obliged to carry on business in that way. He has no

choice. These men collectively, therefore, as long as they succeed in business, do not pay out to consumers enough money to provide buyers for their products.[18] All of which is merely a long-drawn-out way of saying that no business is prosperous unless it realizes a profit; and it cannot realize a profit unless it receives from consumers, in final prices, more money than it gives to consumers. (See Figures 8 and 9.)

Making a dollar watch does not yield consumers a dollar of income

Everybody knows that to be true of his own business. The fact that it is true of the industrial world as a whole will be clear from a simple illustration.

Suppose a company makes and distributes dollar watches at a total cost of eighty cents apiece, and sells them directly to consumers for one dollar. Thus it pays out, as wages and other costs, eighty cents, and no more, in connection with every dollar watch it makes. On a given hundred watches, the cost is eighty dollars and the profit twenty dollars. By paying out only eighty dollars, the company makes it possible for people to buy only eighty watches. If, however, the company disburses half its profits as dividends, it enables people to buy ten more watches, a total of ninety. As far as the operations of this company are concerned, there is, then, an 'overproduction' of ten watches; that is to say, ten watches more than people have money to pay for. If the people are able to buy those ten watches, it is only because some *other* concern has provided them with the extra ten dollars.

Let us now suppose that the company 'ploughs its pro-

fits back into the business' by paying out as wages the undistributed profit of ten dollars, and that it thereby produces twelve more watches. The company has now provided consumers with enough money to cover the price of the original hundred watches; but it has given them nothing wherewith to buy the additional twelve watches. That money must be provided by other concerns, or the watches cannot be sold. Other concerns, however, can supply that deficiency only by paying out as costs more money than they receive from consumers; and they cannot long do that. Ridiculously simple as this case may seem, it shows exactly what men do as long as they prosper.

Thus it is clear that if any man is to realize a profit, he must get it from money which some *other* man has paid to consumers; but if this other man pays out enough money to cover his own prices and the first man's profits, he is liable to fail in business, and so have a part in throwing men out of work and bringing on hard times.

Clearly, then, as long as industry as a whole uses profits to increase output — and that is and ought to be the established policy — consumers cannot possibly get enough money, year in and year out, to buy the output, unless the extra money comes from some other source, or there is a fall in the price-level. A fall in the price-level, however, as every business man knows from unhappy experience, usually reduces profits, employment, wages, sales — in short, brings business prosperity to an end.[19]

We must conclude, then, that in so far as business men succeed in doing what they are constantly striving to do, and what prudent men ought to do — namely, to increase

production out of profits — to precisely that extent they fail to provide the public with enough money to buy their products; fail, consequently, to provide Sam Witham and all the other retailers with enough customers to keep business prosperous.

Consumers must save part of their income

Moreover, even if industry disbursed all its profits in dividends — even if there were no corporate savings — there would still be a shortage of buyers, unless consumers spent all the money they received. But they do not spend all, for they *must* save, and they *ought* to save. Renouncing the ancient virtue of thrift is not a feasible way out of the dilemma. (See Figures 10–12.)

It may be said, however, that — at least in the United States — very little currency is hoarded. Even Sam Witham's customers no longer tuck their savings away in old socks, but deposit them in Postal Savings Banks, or invest them in other ways, so that most of these savings flow back to consumers. That is true. But most of the money which is thus saved and invested is first used to produce more goods, without in the process turning over to consumers enough money to buy the additional goods.

Let us illustrate that point in the simplest way. Let us assume a perfectly balanced condition of industry, with a fixed volume of output, and an even flow of money around the circuit from producer to consumer, and from consumer back to producer; therefore, no savings, corporate or individual; therefore, an even flow of goods — no overproduction, no underconsumption. Now let us assume

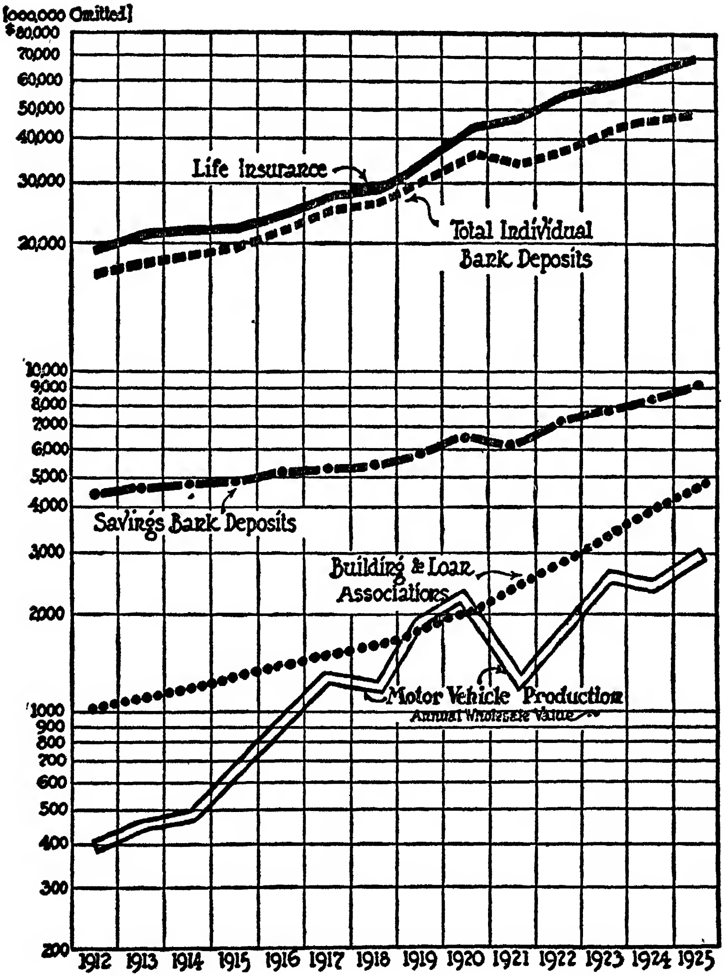


FIGURE 10. INCREASES IN INDIVIDUAL SAVINGS, 1912–25

(This chart is from *Facts and Figures*, published by the National Automobile Chamber of Commerce, New York, 1926. The figures for savings bank deposits include only savings banks as reported in the *Statistical Abstract of the United States*. Figure 11 includes additional classes of savings institutions)

that somebody decides to save one dollar instead of buying a watch. Then, clearly, that watch or its equivalent must remain for the present unsold. Next, suppose that the thrifty individual invests the dollar in such a way that it is used to produce another watch, and in the pro-

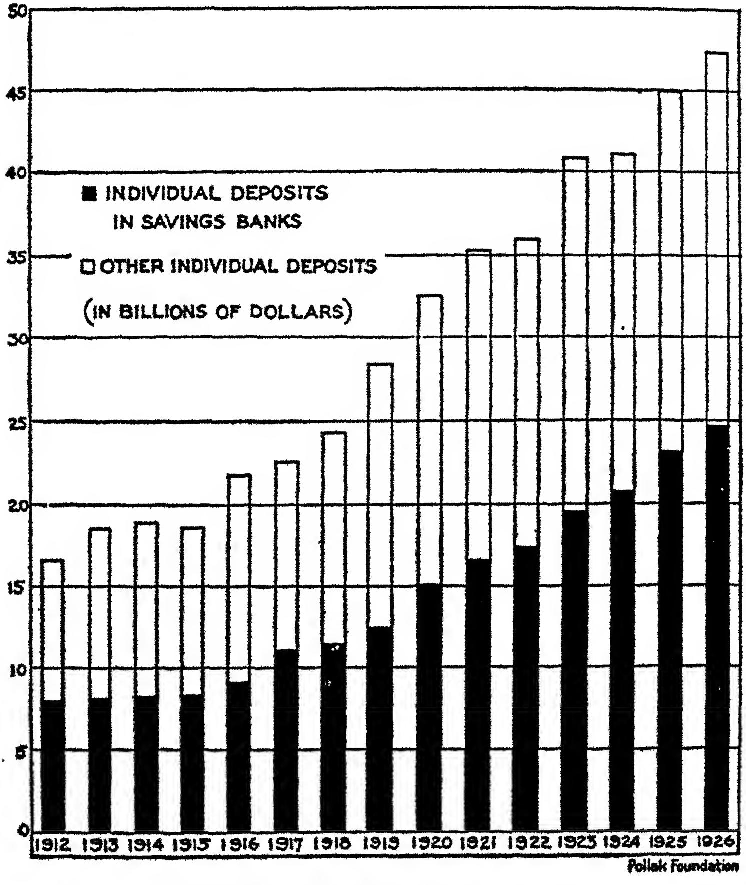


FIGURE 11. SAVINGS IN BANKS, 1912–26
(Data from *Savings Deposits and Depositors*, published by American Bankers' Association, New York, 1927)

cess is paid out as wages. Consumers now have enough money to buy *either* the watch which remained unsold, *or* the watch which has just been made by the use of savings; but they cannot buy *both* watches. To that extent there is 'overproduction.'

Now, if much money is saved — and, as Figures 10 and 11 show,[20] savings bank deposits have increased for many years at the rate of more than a billion dollars a year, to say nothing of other savings — the result may be general overproduction; hence a shutting-down of factories, increased unemployment, and reduction of wages.

At first sight, it may seem that savings will not produce such a result if they are used to increase capital equipment; for in that case *all* the money flows back to

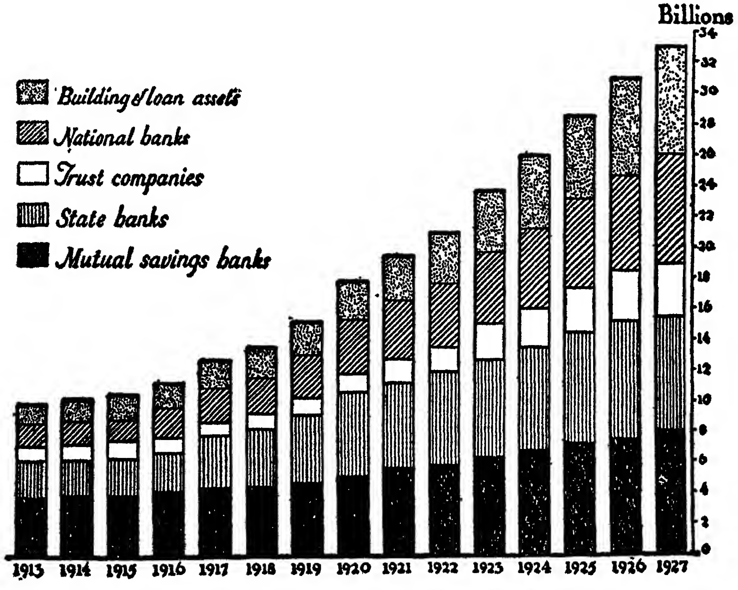


FIGURE 12. INCREASE IN SAVINGS, 1913–27

consumers, and so they can continue, year in and year out, to buy a given output of goods. But additions to capital equipment are made for the purpose of *increasing* the output of goods; and (the circuit velocity of money remaining the same) the sale of an increased output requires an increased volume of money in circulation.

To that point we shall have to revert, again and again.

This is the Dilemma of Thrift

This, then, is the difficulty: this is the Dilemma of Thrift. Individuals as well as corporations *must* save; yet savings tend to thwart the social object of thrift. For the individual as well as for the corporation, a penny saved is a penny earned; but for society, a penny saved is a penny lost if it results in curtailed production. And often it does. For every dollar which is *saved and invested*, instead of *spent*, causes one dollar of deficiency in consumer buying unless that deficiency is made up in some way.

That is true whether savings do or do not increase at a constant rate. Theoretically, to be sure, the effects of savings can be offset exactly by the control of certain factors. Actually, that does not happen for any length of time.

The production of gold does not accomplish the purpose, for statistics show clearly that the output never has been adjusted to the needs of trade. Moreover, since gold-mining is under private control, and since the output depends in large measure on discoveries of new mines and new methods of mining, there is no reason to expect that the output of gold will bear an exact relation to the needs of trade.

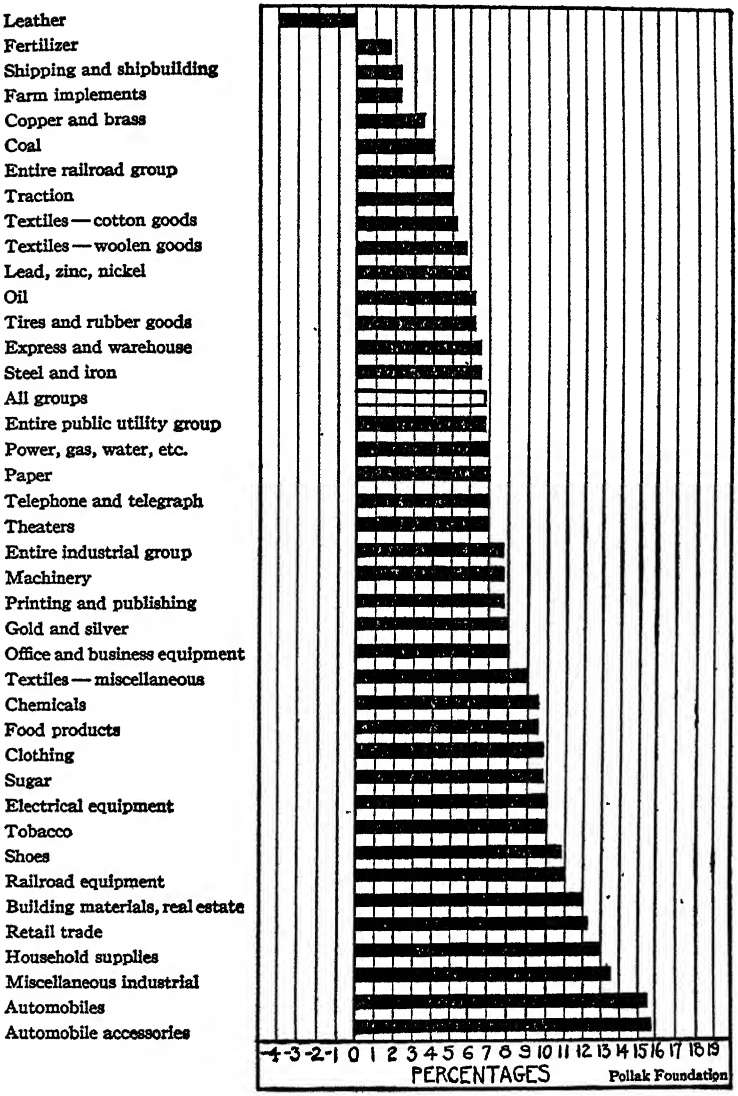


FIG. 13. CORPORATE PROFITS OF VARIOUS INDUSTRIAL GROUPS IN 1923
(Data from the Standard Statistics Company of New York)

Every dollar saved and invested, we say, causes one dollar of deficiency in consumer buying *unless that deficiency is made up in some way.* At times, it actually is more than made up, and that causes trouble; at times, it is not made up, and that causes trouble. At all times

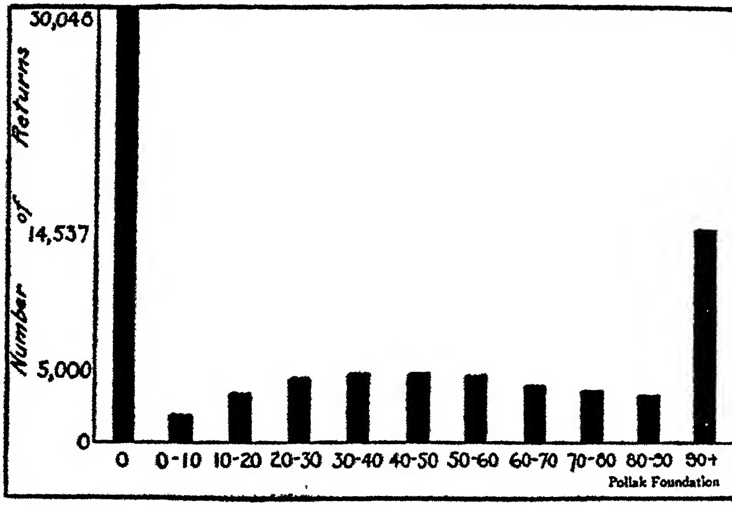


FIG. 14. PROPORTION OF NET BOOK PROFITS OF CORPORATIONS PAID AS CASH DIVIDENDS IN 1922

(Data from Senate Document Number 85, 68th Congress, First Session; *Distributed and Undistributed Profits of Corporations.* Chart includes all corporations reporting both net taxable income and net book profit by the year and paying cash dividends)

it is largely a matter of chance. At present no agency is entrusted with the responsibility for measuring the excess or deficiency of consumer buying, and taking measures toward the right adjustment.

At times, the deficiency actually is made up because enough wages are paid in connection with the creation of new capital facilities. These wages are temporarily a net gain on the consumer side, for they are paid in ad-

vance of the production of goods which the new facilities are designed to put upon the markets.[21] When, for example, a new automobile factory is being built, and before it has added to the supply of automobiles, there are many carpenters, bricklayers, and other workers who are receiving and spending wages. Consequently, as long as the expansion of capital facilities proceeds at a sufficient rate, the shortage of consumer buying caused by corporate and individual savings is entirely offset. But that happens, it should be noted, only when there is at the same

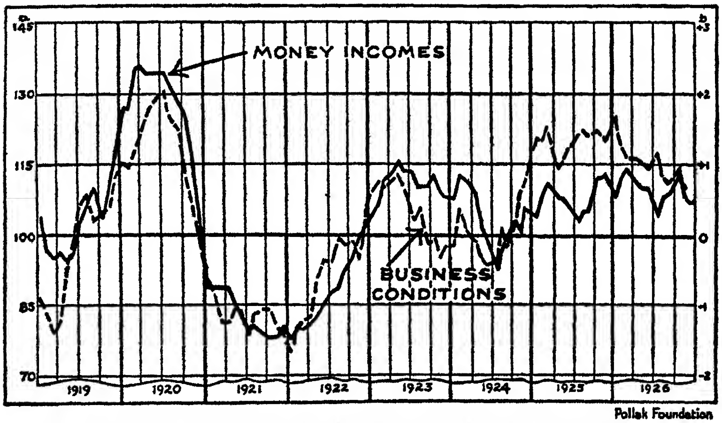


FIGURE 15. CLOSE RELATION BETWEEN MONEY INCOMES AND BUSINESS CONDITIONS, 1919–26

(Index of money incomes is by William A. Berridge, Brown University; index of business conditions is by Warren M. Persons, Harvard Committee on Economic Research)

time a sufficient expansion of the volume of money in circulation. When the expansion of capital facilities is not accompanied by a sufficient increase in the volume of money in circulation, consumers do not have enough income to buy the output of those facilities which are already in use. Of this we shall have more to say presently,

for the relation of capital growth to current prosperity deservés a chapter of its own.

The 'more-money enthusiasts'

That, in bare outline, is our theory. But why so much stir over a theory which, after all, does not seem to be particularly original? The 'more-money enthusiasts' have had their say, no doubt, ever since primitive men first traded with wampum, or beads, or cattle, or whatever it was that first served as a medium of exchange. Long ago Karl Marx contended that economic progress was retarded because workers did not receive enough wages; and that idea has been effectively presented at conventions of the American Federation of Labor. It would be ridiculous to herald as new the idea that the country would be better off if the people who want to spend more money, had more money to spend.

In the past, however, none of those who have ascribed our troubles to insufficient consumer income, have seemed to understand how the shortage is caused, or how to go to work to measure the deficiency. Consequently, they have not discovered any feasible means of making up the deficiency without plunging the country into economic chaos. Whenever they have experimented with large increases in the volume of money in circulation, they have only made matters worse. And of late they have become enthusiastic over the mistaken idea that the simple expedient of paying 'high wages' will relieve us of all our troubles.[22]

The theory we have just outlined, on the contrary, if accepted as a basis of public policy, would suggest a prac-

tical means of offsetting shortages of consumer buying due to savings, whether the rate of saving varied or not; a means of preventing extreme business depressions and unemployment, a means of continuously using our productive capacity, and thereby achieving the goal of 'more pay and less work.'

The theory is not now accepted, however, either by business men or by economists. The reason may be, in part, because no one who is committed to orthodox economics, as taught in universities and colleges the world over for generations, and as still widely taught, can accept that theory without a mental insurrection.

One of the axioms of traditional economics, for example, is that the production of a given volume of goods automatically creates the demand for those goods. Says one economist: 'Supply and demand are only phases of the same economic conditions, and it is hardly conceivable that they can ever be anything but equal.' [23] Thus, in some magic way — which must be accepted on faith, since it is never described except in the vaguest terms — the processes of producing a five-dollar hat are supposed to draw forth from the hat and place in somebody's pocket the five dollars wherewith to buy the hat.

Now, if all that is true, our theory is not true. Indeed, if that is true, the phenomenon of overproduction which seems to characterize every business depression may be nothing but a mirage. In the depths of a depression, however, it is impossible to convince insolvent merchants and manufacturers that their shelves and warehouses, groaning with unsalable stocks of leather, dry goods,

furniture, and the rest, are merely illusions. They know from painful experience that the illusion is the idea that general overproduction is impossible.

'Business without a buyer' — a monetary problem

'Business without a buyer' — that phrase sums up the problem. It is, in fact, a synonym for 'business depression.'

Every business man — and every one else, for that matter — is well aware that the country has far larger capacity for production than it is able to use. There is surplus capacity in virtually every industry; in textiles, for example, in hosiery, shoes, leather, tires, oil, steel, and so on. Any one can extend the list at random from the industries with which he chances to be acquainted. Let him try to think of one which could not produce more if there were buyers at hand for the enlarged output. Let him consider, also, the nature of the insistent demands made by the farmers. Congress is not hounded by men who want to know how to raise larger crops, but by men who want help in selling the too-large crops which they have already raised. The farmers' problem, to be sure, is in some essentials different from the problem of other producers; but, in both cases, the trouble is to find markets for potential output.

Everybody knows, moreover, that much of this wasted capacity would be put to use promptly if there were any prospect of enough buyers. Enough buyers there certainly would be if industry provided them with enough money. Buyers there would be in plenty if the financing of increased production out of savings or bank credit

really did yield consumers, as it is supposed to do, enough money to buy the increased output.

As a matter of fact, this country actually does turn out in years of prosperity, even without using its full capacity, far more finished goods in general than it is able to sell — not merely more of the stocks that Sam Witham carries, and not merely more cotton or tires or coats, but more goods in general. And everybody knows that, in consequence, industry is obliged every now and then to curtail operations until, in the course of a painful year or two or three, the surplus stocks are sold at a loss.

Many business men, having admitted all this — in fact, having bitterly complained of all this — blithely ignore the problem of too few buyers which we have just propounded, on the assumption that there is no problem. The longer such men take that hopeless attitude, the easier it becomes for rattle-brained radicals to gather recruits; and this in spite of the fact that the great body of wage-earners in the United States are not flighty, unreasonable, and responsive to the call of every wild-eyed fomenter of class hatred — but are, on the contrary, reliable, thoughtful, and slow to anger.

When the leaders of industry and finance offer no convincing explanation of the periodic paralysis of business, and no remedy, it is little wonder that people give ear to the charge that the cause is 'price-fixing trusts,' or 'the money monopoly,' or 'the *sabotage* of employers,' or 'the necessity for more leisure.' Such explanations of the problem of too few buyers, however vague and unsatisfactory, seem to some people more convincing than the complacent assertion that there is no such problem.

It must be admitted, in any event, that if the theory outlined above is sound, some of the main tenets of traditional economic theory are unsound. Consequently, some of the generally accepted views on current economic problems, in so far as they are based on those tenets, may have to be modified. In the light of the new theory, many of us may have to change our convictions concerning wages and taxes, saving and spending, tariffs and foreign trade, instalment selling and Government finance, Ford policies, and the effect of the coming of the automobile on the common weal. It is just such issues as these that we now purpose to discuss. Thus we may be able to show concretely how the new theory upsets cherished notions, and at the same time clarifies some of the mysteries which have long surrounded the persistent problems of economics and politics. We may as well begin with the lively problem of instalment selling.

CHAPTER V

BUYERS WITHOUT MONEY

CAN INSTALMENT SELLING KEEP BUSINESS PROSPEROUS?

'INSTALMENT selling is all right, if it is not overdone.' That appears to be the common opinion. We wonder if it would not be nearer the truth to say that instalment selling is helpful to business temporarily for the very reason that it *is* overdone. 'It is a good thing for business,' most people agree, 'as long as dealers do not oversell the consumer.' In a certain sense, however, it is a good thing for business, precisely because it *does* enable dealers to oversell the consumer.

Paradoxical as all that may sound, it seems to point the way to a clearing-up of some of the confusion which exists in the widespread discussion of instalment selling. If we consider the fundamental meaning of the growth of this kind of business, we may see how it happens that men of the highest ability differ as sharply as they do on that subject. An explanation of the basic meaning of instalment selling may give the disputants a common ground.

At present they do not meet on common ground. One man goes so far as to say that the promotion of instalment selling by means of the extension of banking credit to consumers is 'one of the greatest economic forward steps that financiers have devised in modern times.' Another man says, on the contrary, that instalment selling

is 'the vilest system yet devised to create trouble, discontent, and unhappiness among the poor.' Here are opinions which seem as far apart as the poles.[24] Yet the men who so vigorously pronounce these opinions are distinguished industrial leaders, notable for their successful efforts to promote the well-being of their workers. The former is Mr. A. R. Erskine, president of the Studebaker Corporation; the latter is Mr. George F. Johnson, president of the Endicott-Johnson Corporation. Both these men must be right, in some important sense. Such able men, we feel sure, would not reach diametrically opposite conclusions if they got their premises from the same analysis of the problem.

Basic meaning of increased instalment sales

What, then, is the basic meaning of the recent growth of instalment selling? It is this: *In a period of increasing productivity, industry turns out more consumers' goods than consumers can buy with their incomes.* That is the bedrock fact. Any discussion of the subject which fails to take that fact into account is superficial. To overlook it is like making permanent plans for the traffic of a city on the assumption that the traffic does not increase, or on the assumption that each additional motor car brings with it its own parking space.

The deficiency of income, as we said in the previous chapter, comes about because industry does not pay consumers as much money as it expects consumers to pay for its products — as much money as consumers *must* pay if business is to expand and prosper. In other words, business is conducted at a profit. Consumers, moreover,

have no source of income other than industry. Consequently, as the flow of goods into consumers' markets increases, the flow of money into consumers' pockets does not long increase proportionately. Presently, there are more goods on hand than the people can buy and pay for out of income, at the going price-level.

To take these goods away at current prices, therefore, consumers must spend enough of their savings to make up the deficiency of current income. That, however, consumers in the aggregate never do. On the contrary, they constantly increase their savings, year in and year out, in war and in peace, in depression and in prosperity. (See Figures 10–12.)

There are, then, these two main reasons why dealers cannot long continue to sell for cash, without a fall in the price-level, all the goods that are turned out: First, because industry does not disburse to consumers — as wages, interest, dividends, rent, and the rest — enough money to buy its products; second, because consumers, under the necessity of saving, do not spend even as much as they receive. Since, therefore, consumers cannot buy the goods with their current income, and will not buy the goods out of saved income, industry has resorted more and more to the device of handing them the goods, to be paid for out of future income.

The growth of instalment selling

If such an explanation of the rapid growth of instalment selling sounds like nothing but theory, and obscure theory at that, the facts themselves are plain enough. Nobody needs to delve into theory in order to find out

what is going on. Take the facts in the automobile trade, for example. Nobody doubts that in 1926 this country made nearly four and a half million motor cars. There are the cars, actually produced. The next concrete fact concerning which there is no dispute is that cars were sold in 1926 to the retail value of more than four billion dollars, with only about one third of that amount paid down. Consequently, there are now several million cars in the hands of consumers, on which more than one and a half billion of payments are still to be made.[25]

Automobiles, moreover, are only one of innumerable commodities that are now sold on easy payments. To be sure, we have not yet been urged to buy chewing gum for a penny down and a penny a day, on the ground that, since it may last a week, we ought to buy it out of income instead of out of capital. 'Chew as you pay' is one of the slogans which even the tobacco people have spared us. Many millions of consumers, however, have already bought dresses and rings on partial payments, not to mention kitchenware, refrigerators, oil heaters, tablecloths, radio sets, false teeth, and the rest. The Simple Simons of our day do not have to contend with many unprogressive Piemen. 'Show me first your penny' is not the slogan of the most rapidly expanding new industries.

Altogether, there must be in the possession of consumers at this moment goods to the retail value of not far from three billion dollars, exclusive of securities, real estate, and houses, which have not yet been paid for. The actual sales price of fifteen kinds of commodities, bought on partial payment plans in the year 1926, appears to

have been about six and one half billion dollars. Of that amount, the actual instalment debt outstanding at any one time, with allowance for overdue accounts, must have been nearly three billion dollars. And there is some instalment selling for which we do not have even estimates. Assuming that total commodity sales to consumers in 1926 amounted to forty billion dollars, the value at any one time of the unpaid part of the goods bought on instalments seems to have been about 7.5 per cent of the total retail sales of the year. Now, bearing in mind that the unpaid part amounts to not much more than forty per cent of the total instalment sales, we see that the above estimates are closely in accord with the estimate of the Chamber of Commerce of the United States that seventeen per cent of the goods sold at retail are sold on time.

The plainest fact in the whole situation is that those goods actually were produced. Nobody needs an imposing array of graphs and statistics to convince him of that fact. Equally plain — at least to those who have to do the selling — is the fact that a large part of those goods would not have been sold at all had buyers been required to pay cash for them. And just as plain, to any one who has studied the statistics of income, is the fact that many of the people who bought those goods could not have paid for them out of income.

That, however, is not the whole story. Had we not contrived to pass on to consumers about three billion dollars' worth of goods in excess of what they have yet paid for, most of those goods would not have been produced at all. Now, the people are perfectly able and willing to make the goods. That, as we have said, is the

plainest of all facts. The people not only can, but actually do, make more motor cars, furniture, fur coats, washing-machines, refrigerators, and no end of other commodities than they have the income to pay for. Nevertheless, in spite of the unquestioned ability and willingness of the workers, they would not have been allowed to make those goods if the people who wanted to buy them had not been permitted to buy them on credit. In that case, a large part of the wages and dividends, paid in connection with the production and sale of those goods, would not have been paid at all.

Instalment selling has delayed a business recession

From these plain facts, we come to this plain conclusion: The expansion of instalment selling has saved the country, up to this time, from a marked business recession. There is no doubt that industry has been more prosperous during the past five years, the volume of employment and production larger, and the national income and standard of living higher, than would have been the case had it not been for instalment selling.

Does any one question that conclusion? If so, let him consider what would have happened if three, or even one, billion dollars' worth of goods, which are now in consumers' hands and unpaid for, had not been made, or if a large part of these goods had been made and left in the hands of manufacturers and merchants. Would anything have prevented a chilling fall in prices? As a matter of fact, not even the huge instalment sales of 1925 and 1926 prevented a sustained decline in the commodity price-level.

Consider the effect of automobile sales alone. Nobody doubts that business as a whole would have had a severe setback if sales in general during the past year had fallen off even one billion dollars. Yet experts in the automobile industry feel sure that sales in that field alone would have fallen off by that amount if nobody had been able to get a car to drive without paying cash for it.

Another way of considering the volume of instalment selling is in terms of national income. If the income of the United States in 1926 was 80 billion dollars, over eight per cent of that income was paid for goods which were bought on instalments. That was an average expenditure per family of more than two hundred dollars.

Still another way of comprehending the meaning of these billions of instalment sales is to compare them with the billions of savings. In the five years from 1921 to 1926, individual savings, in savings banks alone, increased over eight billion dollars. That means that consumers received from industry over seven billion dollars which they turned over to savings banks, instead of to dealers.[26] Now most of those savings did not lie idle, but were used, directly or indirectly, to increase the output of industry. Consequently, those large savings would have resulted in a large accumulation of unsold goods, and would thus have caused a recession of business, had not the effects been offset in some way. There is no doubt that the effects were partly offset by increases in the volume of goods bought on instalments; for each dollar's worth of goods delivered to consumers and unpaid for, temporarily offsets one dollar of deficiency in consumer buying caused by savings.

It is true that partial-payment sales to consumers are only a small part of the total business of the country which is conducted on credit. We miss the point, however, unless we observe that instalment sales have been increased by means of bank credit which is extended on the *consumer* side, whereas nearly all bank credit was formerly extended to business on the *production* side. This increase in the financing of consumption has come about largely through the development of finance corporations which are so conducted that banks are willing to lend them money, which they would not have lent on the accounts receivable of the old instalment-selling houses. The net result is that a large volume of finished goods has been distributed to consumers which otherwise would not have been distributed.

That reveals the fallacy in a common argument. It is often said that the increase of instalment business involves inflation of bank credit which, like any other inflation of credit, brings on a depression.

In the past, however, expansion of credit has usually taken place for the purpose of increasing production, whereas expansion of credit in connection with instalment selling is for the purpose of increasing consumption; and calling two essentially different things by the same name does not make them have the same effect. Overstocking dealers' shelves on credit is far different from overstocking consumers' households on credit. In point of fact, an expansion of credit which results in a net increase in *retail sales* helps to render harmless, for the time being, an expansion of credit which results in a net increase of *output*.

How long can instalment selling delay a depression?

We come now to the most important question of all: How much longer can instalment selling delay a business recession? That question has hardly been grappled with in the numerous published discussions of the subject. They have been concerned mainly with the safety of the individual producer or merchant or bank, or with the value of the plan to the individual consumer who uses it. Such questions as the following have been considered in much detail: How can a merchant who sells on partial payments protect himself against losses? If he does not extend credit in that way, how can he meet the competition of those who do? How is he to manage sales and collections so that when the slump in wages comes, and some buyers cannot meet their payments, he will have made a net profit on his instalment business? How is the banker to make sure that, no matter what happens to instalment business in general, each of his own loans will be paid?[27] Such questions are necessary and proper. No one can conduct his business primarily for the general welfare, even if he wants to do so. He must first look to his own solvency.

Nevertheless, the country as a whole is much more concerned as to the effect of increased instalment sales on general economic conditions than as to the welfare of the individuals who are directly responsible for that kind of business. A practice that benefits certain individuals may or may not benefit society. The most important question, therefore, is to what extent the economic gains effected by means of increases in consumer debts are permanent gains.

Why may they not be permanent? For several years we have had good business. It has been substantially aided by partial-payment sales. What is to prevent us from increasing our sales every year in that way? As long as risks are carefully selected, down payments are large enough, periods are short enough, and nearly all deferred payments are collected according to schedule (which is actually the case with more than two billion dollars a year of automobile sales), it seems to some people as though the debts of each period could be cleaned up in the next period, and the expansion of this kind of credit business could go on indefinitely.

That opinion is expressed in numerous trade journals. It is pointed out that payments, made daily on old accounts, provide money to be used in financing new accounts. All we have to do, it seems to many people, is to advance money on consumers' promises to pay. Most of this money goes promptly to manufacturers and distributors, who pay most of it out as wages. Consumers thereby get the money to make good their promises to pay. And so on around the merry circle. Thus, it is said, instalment selling is a sufficient force to sustain perpetual business prosperity.

Couched in such general terms, the argument appears to be sound. It is only when we study actual sales figures over a period of years that we can see where we are going.

Business needs larger and larger doses of the stimulant

Let us, then, assume for the moment that the annual income and savings of consumers taken as a whole remain the same, and that consumers spend forty billion

dollars a year in cash payments for goods. Let us assume, further, that the increased purchases of goods on instalments in each period of time are paid for in the next. For convenience, we will call each period a year.

In the first year, then, consumers buy forty billion dollars' worth of goods. Now the question is whether consumers cannot *permanently* increase their purchases by increasing the goods which they buy on deferred payments. Let us assume, then, that in the second year consumers increase their buying to forty-one billion dollars by adding purchases, the deferred payments on which are one billion. We assume, in other words, that consumers take away from the markets one billion dollars' worth of finished goods in excess of what they would have taken away if they had not made increased use of easy-payment plans.

That billion dollars' worth of goods must be paid for out of the income of the third year, leaving the people only thirty-nine billion of current income wherewith to buy goods during the third year.

To sustain business the third year, therefore, at the level of the second year (namely, with forty-one billion of sales) it is necessary for consumers to increase their instalment buying to *two* billion. But in that case they must use *two* billion of current income during the fourth year to pay for the goods bought in the third year. That leaves them only thirty-eight billion of income to spend in the fourth year. Consequently, sales can equal those of the second and third years only if consumers buy *three* billion dollars' worth of goods on deferred payments. And so on. Each year there must be an *increase* over the previous

year, equal to the original increase, *merely to sustain business* at the level it reached by means of the original increase. In other words, instalment selling must grow from year to year at the following rate: 1, 2, 3, 4, 5, 6, and so forth. A given dose of instalment sales, like a given dose of any other stimulant, may be very exhilarating; but to get the same effect again and again, the dose must be larger and larger.

So far we have been considering what is needed to sustain business at a given level. But if increases in consumer buying year after year are to be brought about by instalment sales, those sales must increase at an even more rapid rate than in the illustration we have just given. It is true that nobody knows exactly how fast such sales have been growing; but the principles we have just been discussing hold true, no matter what the rate may be.

The objection may be raised that we have been speaking of instalment sales as though they took place in one year and were paid in the next, whereas payments on each instalment contract are made at regular intervals over the entire period of the contract. Moreover, many of the contracts are for shorter periods than one year. Those facts, however, do not affect our conclusions. The essential point about instalment selling is that consumers acquire goods at one time which they contract to pay for at a subsequent time. That is, in truth, the only reason why an increase in such sales is a stimulus to business. Consequently, a part of the consumer income of any given period, whether a week or a month or a year, must be used to pay for goods which were bought in a previous period. Though we have called the period one year in our

illustrations, the conclusions would be the same if we used any other period of time.

No one can increase his instalment buying indefinitely

If these billions of dollars that are spent by millions of men are hard for you to visualize, you can prove the point just as well by drawing on your own limited experience. Let us suppose that in a given period of time, you can buy goods to the value of $10,000, and you can buy no more unless you increase your instalment purchases. Let us suppose, however, that an alluring offer of 'dignified credit' leads you to buy an automobile, to be paid for 'out of income, rather than out of capital.' The deferred payments amount to $1000. For the period of time in question, therefore, your purchases are $11,000. That is $1000 more than otherwise they would have been. You have done that much to increase the total sales of the country and to stimulate business.

In the next period of time, however, you must reduce your cash purchases to $9000 in order to pay $1000 on your car. Clearly, then, you cannot continue buying at the $11,000 level unless you mortgage — no longer $1000, but $2000 of your future income. If you do so, the result will be that in the next period of time, you will have only $8000 to spend for goods. You can sustain your rate of buying in that period, therefore, only by committing yourself to $3000 of deferred payments. And so on.

At that rate, how long could *your* instalment buying help to keep business prosperous?

Now, add to those budget figures the figures of all the other consumers who have boosted business by increasing

their instalment buying, and you see at once the necessity of our previous conclusion. It is plain that consumers as a whole, having in one period lifted their buying to a higher level by increasing their debts on instalment purchases, cannot even maintain that level of buying in the next period without doubling their debts; in the next period trebling their debts; and so on.

It is merely putting the same conclusion in other words to say that, if consumers improve business in one year by mortgaging their incomes, on the average, *one* month in advance, they can sustain business at that level the next year only by mortgaging their incomes *two* months in advance, the next year *three* months in advance, and so on.

There are differences of opinion as to how far into the future it is wise to carry this process; but no one who can master the mysteries of first-grade arithmetic need deceive himself with the idea that the possibilities are unlimited. The expansion of business by means of instalment selling, which has gone on so blithely for several years, is certain to come to an end. Unquestionably, for business as a whole, sales on instalments to-day are made partly at the expense of sales at some future date. Gains during this period of expansion will be offset to some extent by losses during the next slump. That is what we meant when we said at the beginning that instalment selling is helpful to business, for the time being, precisely because it is 'overdone.'

Financing of increased output does not create enough customers

Here the question may arise whether we ourselves understand arithmetic. Have we not made a crucial error?

In all our illustrations, we have assumed that the total income of consumers remains the same from year to year; whereas everybody knows that, if business expands with the expansion of instalment sales, there may be an expansion of the money in circulation and of the income of consumers. The retail sales of electric vacuum cleaners, for example, increased from about $1,300,000 in 1914 to about $69,000,000 in 1924; and it appears that about sixty-five per cent of those sales were on the instalment plan. Many million dollars, made available through expansion of bank credit, have been paid as wages to the workers who made those vacuum cleaners, which wages, but for the extension of instalment sales, would not have been paid at all. Thus, the income of consumers has, in fact, grown with the growth of instalment sales. Consequently, we have no right to assume that the income of consumers remains the same while they are increasing their instalment buying. On the contrary, an expansion of money and wages actually takes place, during a period of prosperity, in connection with the financing of instalment sales.

Such an expansion of money, it is often said, 'automatically provides consumers with enough money to buy the expanded output.' If that were true, the improvement of business which is brought about by the stimulus of a given increase in instalment selling might be permanent. But it is not true. A moment's thought will show that the financing of instalment sales does not put into consumers' hands *enough* money to buy the goods in question; for additions to the volume of money which are made in connection with financing the production and sale of a given

volume of goods are seldom large enough to cover the retail price of those goods.

That is necessarily so. Every individual piece of financing, whether to assist instalment business or any other business, proceeds on the assumption that more money is to be received from consumers eventually for a given volume of goods than the banks advance in connection with the goods. If these expectations are not largely realized, a recession of business follows.

That brings us back to our central theme. As a matter of fact, no producer pays out as costs as much as he expects people to pay for the product — as much as they *must* pay if he is long to continue in business. In other words, he does not borrow and pay out, in connection with a given expansion of output, as much money as consumers must pay for the output if he is to make a profit. Consequently, the increased wages and other payments — that is to say, the total costs which are paid as a result of increased sales on instalments — are insufficient to enable people to buy the increased output. Thus it is clear that sales on instalments do not 'automatically' enable people to pay for the goods in question. The goods increase faster than the income. The gap between the two widens. The 'automatic' feature of the process is its culmination in a recession of business.

Whether the goods are 'luxuries' or 'necessities' matters little

All that is true whether we regard the goods which are sold on instalments as 'luxuries' or 'necessities.' It is usually contended that the increase of sales of necessities

on the instalment plan is financially sound and advantageous to society, but that this is not true of sales of luxuries. No comment on the subject is more frequent.

There is, however, no classification of commodities as luxuries and necessities which justifies that opinion. In 1920, some of the banks intimated that automobiles were luxuries, and it might be well, therefore, to curtail the expansion of bank credit to facilitate the production and sales of automobiles. That was necessarily nothing but an opinion of the banks. The people of the country promptly showed, by purchasing more cars than ever before, that they were not interested in the banks' opinion. Since that time, they have increased their purchases of automobiles more rapidly than their purchases of anything else.

Evidently it is useless for bankers, or merchants, or governments, or reformers to insist that certain products are necessities and certain other products are luxuries. The people settle those questions for themselves. If they spend a billion dollars more for automobiles and a billion dollars less for other things, it is because they want automobiles more than they want the other things. To insist that automobiles are luxuries and the other things are necessities is to engage in academic discussion.

In any event, the effect on general business of expanding sales by means of increasing consumer debts will be much the same whether the goods are of one class or of another. An additional billion dollars of wages is an additional billion dollars of consumer purchasing power, whether the wages are paid to produce cars, or cattle, or anything else. And a slump of a billion dollars in wages

paid in the automobile industry would be as bad for business in general as a like slump in the income of farmers.

Both sides are partly right

We said at the outset that both sides of the controversy, as represented by such men as Mr. A. R. Erskine and Mr. George F. Johnson, must be right in some important sense. Now, in conclusion, we can sum up our views on the subject by pointing out the particular sense in which it seems to us that each side is right.

Those who oppose instalment selling are right in objecting to any solution of the problem of inadequate consumer demand which puts consumers deeper and deeper into debt. Moreover, such an expedient cannot permanently increase prosperity. The chief error of those who hold that it can lurks in their assumption that, if consumers go into debt three billion dollars in order to acquire certain commodities, industry will necessarily pay them an additional three billion dollars as wages, dividends, and the rest, wherewith the debts can be paid. The process is supposed to be self-sustaining — automatically so. It is not. The financing of increased production, as we have shown, does not 'automatically' induce a flow of money into consumers' pockets which is equal to the flow of goods into consumers' markets. Hence the stimulus to business of a given gain in production, brought about by a given gain in instalment sales, is not lasting. Larger and larger doses of the stimulant must be injected merely to prevent a relapse.

If that were not so, business would not have been

obliged, in the first place, to resort so largely to increased instalment selling in order to distribute its current output at current prices. The circuit flow of money by means of which instalment selling is supposed to maintain adequate consumer demand would have yielded consumers enough income for the purpose. Each addition to supply would have created its own demand. For example, the very increase in bank credit which enabled industry to turn out a million more cars would have given people enough additional income to buy the cars. In short, the self-sustaining process would have functioned without a piling-up of consumer debts. The chief reason it did not so function is that — contrary to traditional economic theory — a given supply does not produce an equivalent demand. The production of additional goods does not in itself give people enough additional income to buy the goods.

On the other hand, those who favor instalment selling are right in holding that production should not be curtailed, and workers thrown out of employment, and standards of living thereby lowered, for the sole reason that the people do not have enough income to buy the increased output of business. Whatever the evils of partial-payment selling may be, it is better for the people to acquire goods in that way than not to acquire goods at all, simply because they have not been permitted to make them. Something more must be done than we have done in the past to enable the people as consumers to acquire and enjoy as much as they are able and willing as producers to get ready to be enjoyed. To our exceedingly efficient system for financing production, we must somehow add

an equally efficient system for financing consumption. We must find some means of doing permanently, on a thoroughly satisfactory basis, what increased instalment selling is now doing temporarily, on a questionable basis. The way will not be difficult to find, once we are convinced that it must be found.

CHAPTER VI

HOW CAPITAL GROWTH PROVIDES BUSINESS WITH A BUYER

COULD PROSPERITY HAVE COME WITHOUT THE AUTOMOBILE?

THE present material prosperity of the United States is due chiefly to the automobile. Had it not been for the development of that industry during the last fifteen years, it seems probable that business would now be jogging along at a level not far above that of the decade before the World War. Certain it is, that without the great expansion of the automotive industry in this country, there would have been no such increases as those which have taken place in the volume of money, in consumers' income, in real wages, and in profits.

Equally impossible would have been the gains in building operations, in railroad development, and in highway construction. The fact that the United States has developed the largest new industry of this generation so rapidly that it now produces about seven eighths of the world's output of motor cars is, in itself, enough to make this country far more prosperous than a score of countries which divide among them the other one eighth of the business. Indeed, every index of our general prosperity reflects the growth of the automobile industry. The people of this country do not all ride in automobiles because they are prosperous; it is more to the point to

say that they are prosperous because they all ride in automobiles.

When we expressed that view to the head of a large department store, he answered, 'Nonsense!' He even went so far as to say that it would be difficult to find anybody, outside the motor groups and allied trades, who would believe such an extreme statement.

'The automobile industry,' he continued, 'far from helping business as a whole, has made it worse. By selling cars on easier and easier terms, it has induced millions of people to spend money which they could not afford in buying cars, and to spend time which they could not afford in riding in them. As a result, there is now one car for every six persons in this country, while the rest of the world does not have one car for every hundred persons.'

'Look at the long rows of automobiles in front of our factories!' he exclaimed. 'Not all Fords, by any means. Why, in 1925, we spent more than six billion dollars for motor cars and motor supplies alone. What does all this mean?'

But before we could give our answer, he gave his own.

'Clearly enough,' he said, 'it means that at least six billion dollars of consumer income are spent each year for non-essential automobiles, with a corresponding loss to makers of shoes, hosiery, rugs, books, canned goods, and scores of other necessary products. That has certainly been bad for business generally.'

Now it must be admitted that money spent for motor cars is not spent for anything else. It must be admitted, further, that money spent by consumers is the force which drives all industry. Consequently, other trades would

have been even more prosperous than they have been if consumers had spent for other things all the money which they have spent for automobiles.

Where did the six billion dollars come from?

That, however, is not the whole story. We still have to ask whether consumers would have had that six billion dollars to spend on other things if there had been no automobile industry.

The most obvious answer to that question is that the automobile industry, directly and indirectly, pays in wages, to about three and one half million persons, not far from six billion dollars a year. Here, then, is a single industry, non-existent a generation ago, which now provides nearly all the purchasing power of a body of consumers equal to the total adult population of Alabama, Arkansas, Colorado, and Connecticut; a single industry which turns over to wage-earners enough money to enable them to buy the country's total output of bread and, in addition, the total output of woolen, worsted, and silk goods. It is a stupendous amount, too large for any of us to visualize. As a matter of fact, it is large enough to account for the notable gain in real wages which our workers have achieved in the last fifteen years, the very period during which the automobile industry has attained more than ninety-five per cent of its growth.[28] (See Figures 20–22.)

Many persons, it is true, object to that rapid growth, because fully three quarters of the sales have been on instalments. Mr. B. E. Geer, president of the Judson Mills, expresses a common opinion when he says: 'For a long

time, I have felt that the buying of automobiles on the instalment plan in such volume was one of the outstanding reasons for slow business in many industries.'[29]

Undoubtedly, it is one of the reasons why the automobile industry has grown faster than various industries which have not made use of time-payment sales. Nearly all those industries, however, have fared better than they would have fared, had not business as a whole received the impetus of the distribution to consumers, on small initial payments, of about three billion dollars' worth of merchandise in excess of what they have yet paid for. And about half that merchandise is motor cars.

We have already mentioned the fact that business in general is stimulated by an increase in the volume of sales brought about by instalment methods, whether the goods sold are regarded as 'luxuries' or 'necessities.' In either case, the making of more goods involves the payment of more wages; and an additional billion dollars of wages is an additional billion dollars of consumer purchasing power, whether the wages are paid to produce cars or corn or anything else. Moreover, it is better for people to acquire the goods they want, on partial payments, than not to acquire the goods at all, merely because producers have not dared — indeed, have not been able — to let the people make them. That being true, the automobile industry has done much to sustain prosperity, by devising an exceedingly efficient and safe system of time-payment selling.

All in all, we conclude that without the motor-car industry to swell the national income, the six billion dollars, more or less, which were spent last year for automobiles

and for things required by the use of automobiles would not have been spent for anything. Consequently, business as a whole would have been far less prosperous than it is to-day.

What does a country need in order to prosper?

Approaching the whole subject from another angle, we may ask precisely what the country had to have, during the last fifteen years, in order to attain the present prosperity. One thing is certain: It had to have enough consumer purchasing power. The close relation between consumer income and business conditions is shown in Figure 15, page 57. Business cannot make more goods unless it is able to sell the goods it has already made — which means that production cannot long expand any faster than consumer demand expands; and consumer demand does not grow any faster than consumer income.

As a matter of fact, the failure of consumer demand to keep pace with the output of consumers' goods is the chief reason why prosperity ends in depression.

Now, as the reader will recall from our previous discussions, there are two main reasons why consumer buying lags behind output: One reason is because consumers, under the necessity of saving, cannot spend as much money as they receive. The other reason is because industry does not disburse, as wages, or in any other way, in connection with the production of a given volume of goods, as much money as it expects consumers to pay for those goods — as much money as consumers *must* pay if industry is to go forward without a slump. In other words, as long as business is prosperous, it is conducted

at a profit. Consequently, business cannot prosper unless consumers actually pay for goods more money than they have received from business for making those goods.

Now, at times, that is precisely what consumers do. The main reason why they can thus pay, for a given year's output, more money than the producers have distributed in connection with that output is that, at the same time, additional money has been created and distributed to consumers in connection with the development of new capital facilities, facilities which consumers have *not yet* been expected to pay for, and — what is equally important — facilities which have *not yet* added to the supply of goods which consumers are expected to pay for. That is a crucial point. It explains, as we shall see presently, what the automobile has done for business.

Many readers, no doubt, not fully understanding the effect of large capital outlays on consumer buying power, feel sure that the 'Dilemma of Thrift Theory' proves too much. If it be true that industry does not pay out to consumers, in connection with the goods it produces, enough money to enable consumers to buy those goods, how can industry sell an ever-increasing volume of goods? Yet that is what industry actually has done, in the United States, decade after decade.

Again, if it be true that corporate and individual savings normally cause a shortage of consumer buying, how can business ever prosper? Why do we not have chronic overproduction? How can the United States possibly be as prosperous as everybody knows that it is? In point of fact, there are no signs of extensive overproduction, even

though freight-car loadings — the most comprehensive index of productive activity — have in late years acquired the habit of breaking all records. How can we reconcile our theories with these unquestioned facts?

It will help us to find the answer to that question, if we remember that industry has no source of income except consumers, and consumers have no source of income except industry. If, therefore, industry paid to consumers all the money it received from consumers, and if consumers spent all that money (or invested it in such a way that it all flowed back to consumers), industry could continue indefinitely to make and sell *a given volume of goods* at a given price-level. There would be no 'booms' or 'depressions' — no 'business cycles,' as we have known them.

That would be the case if all the undistributed profits of business and all the savings of individuals were invested in new capital facilities at home. It would be equally possible if any part of the savings, not thus invested, were used for public works — highways, parks, canals, bridges, public buildings, and the like. For savings thus invested in private industry, or spent for public works, would flow back to consumers. Under those conditions, there would be an even flow of money from consumers to producers, and from producers back to consumers, and an even flow of goods. Except for the temporary shortage caused by time-lags, there would be no deficit of consumer buying.

In recent years, however, as everybody knows, neither corporate nor individual savings have all been invested in those ways. Some have been hoarded; some have been

left in growing bank balances; and billions have been invested abroad. Unless the shortage of consumer buying at home caused by such savings had been made up in some way, it would not have been possible to sustain business at the level of 1910, much less to lift it to its present level.

How the growth of capital sustains prosperity

Now it happens, as we have said, that the shortage due to savings is always made up in part — sometimes more than made up — by an expansion of the volume of money. That expansion takes place chiefly through bank credit extended to borrowers, directly or indirectly, in connection with the creation of new capital facilities and new public works. We may observe, in passing, that, during the period of construction, it makes little difference in the flow of money to consumers whether the borrowed money is used to build a factory or a city hall.

It is important to note that such an expansion of the money in circulation does not take place unless some one borrows the money and uses it. Bank credit which is waiting for business men to come and put it into circulation has no more effect on business than has gold which is waiting in the bowels of the earth for somebody to come and dig it out. (We are tempted to put that sentence in '12-point caps.') No matter what the resources of the banks may be, no matter what the bank balances of the Steel Corporation and Henry Ford may be, that money is not spent by consumers until some one borrows it and sends it on its way, rejoicing the hearts of dealers. It follows that any business man who takes no part in the

expansion of money depends on what other men do, for the development of his own business.

Henry Ford, for example, seems proud of the fact that he does not have to borrow from the banks, because he has a large amount of money which he has saved out of profits. Those savings, however, as we shall explain in the last chapter, could not possibly have been so large had not other men, in their resort to the banks, played an essential part in adding to the money in circulation.

From the foregoing analysis of the Dilemma of Thrift, we come to this significant conclusion: The country has prospered as it has, in the last fifteen years, because the volume of money has expanded sufficiently, largely in connection with new capital facilities and public works, to make up the deficit in consumer buying due to savings, corporate and individual. But merely making up that deficit was not enough to account for the *growth* of business. Such an expansion of money would have enabled business merely to hold its own.

More than that — and this is the main point — the additions to wages, interest, and dividends, caused by capital investments and public expenditures, have been almost enough to enable consumers to buy the greatly increased output of our greatly increased productive facilities.

Unless we prepare for a prosperous to-morrow, we cannot have a prosperous to-day

Thus we see, in actual operation, an economic principle of the first importance, but one which, oddly enough, is seldom mentioned in treatises on the principles of economics:

It is impossible to use the capital facilities we already have, to a sufficient extent to keep business prosperous, unless we are building new capital facilities at a sufficient rate.

The people have always been urged to save, and to invest their savings in new capital goods, in order that the country might prosper *in the future;* but few men seem to have understood that such investments are equally necessary in order that the country may prosper *in the present.* Let us restate that principle in this way: To enable people to buy the output of our present factories, we have to build new ones; and then, in order that people may buy the output of the new ones, we have to build more new ones.

That is the main reason why the production of pig-iron is so reliable a measure of business conditions. For many years the close relation has been noticed between changes in the demand for pig-iron and changes in the volume of business as a whole. (See Figure 16.) For that reason, pig-iron statistics have been watched closely; though many people have wondered why pig-iron, among a thousand commodities, should be the best one to use in forecasting. The reason is that general prosperity requires a sufficient expansion of capital facilities, and scarcely any industry can expand without increasing the demand for pig-iron.

Now, it sometimes happens that the growth of the capital structure of a single industry involves a sufficient expansion of money in circulation, and sufficient payments to consumers, to more than make up the shortage of consumer buying caused by savings, and thus to prolong 'good times.' That is what happened in the first great era of railroad building.

This brings us back to the somewhat startling statement with which we began our discussion of the automobile industry; because to the present generation the growth of the automobile industry has brought even greater prosperity than the growth of the railroads brought to a previous generation.

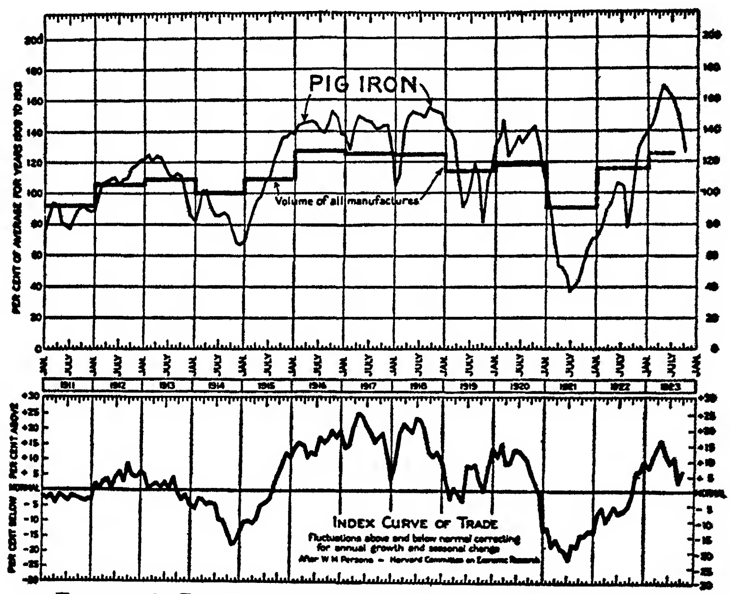


FIGURE 16. CLOSE RELATION BETWEEN VOLUME OF PIG-IRON PRODUCED AND VOLUME OF TRADE

(From *The Problem of Business Forecasting*, Pollak Publication, Number 6, 1924; p 152)
The index of trade is by Warren M. Persons, Harvard Committee on Economic Research

We cannot prolong these 'good times,' however, merely by stabilizing the automobile business at its present level, for it is the *growth* of that industry which has generated our present prosperity. It is not possible to sustain such prosperity merely by continuing to pay a given number

of millions of dollars a year to the workers who make the cars, for unless consumers pay more for those very cars than all the costs of making them, the country will run upon 'hard times.'

Prosperity actually has been generated in recent years by the large increases in the volume of money, based upon the rapidly growing earning power of the industry and the loan value of its securities, and upon the large increases in wages paid in connection with the rapid development of capital equipment in many branches of business, which development has resulted from the rate of growth of the motor-car industry. The reason why the *rate* of growth is the important thing to notice is that a stabilized business does not make large additions to the nation's payroll, in connection with expansion of plant.

Never before has any industry made such large additions in so short a time. Its capital investment, up to 1907, was negligible. Ten years later, it was approaching a billion dollars. Ten years later it was two billion.

Consider the Ford factories alone. It took them twenty years to turn out the first million cars, but less than six years to turn out four million more; and now the capacity exceeds two million cars a year. In a single generation, the Ford Company has grown from a score of men in a little shop to a concern which employs, directly, more than 200,000 men. Indirectly, that rapid growth has brought about an expansion of the volume of money in circulation, in connection with the building of new capital facilities by the many concerns which have supplied materials to the Ford plants. (See Figure 17.)

All told, there have been invested in the capital equip-

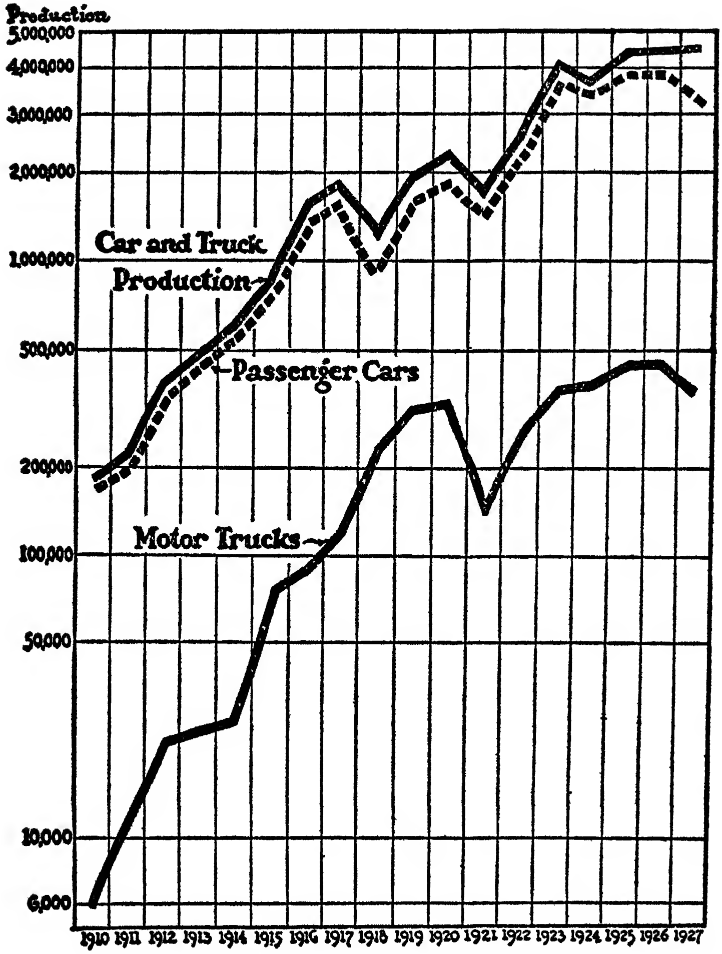


FIGURE 17. NUMBER OF AUTOMOBILES PRODUCED, 1910–27

(Data from *Facts and Figures*, National Automobile Chamber of Commerce, New York, 1927)

ment of the manufacturing part of the motor-car business alone, nearly two billion dollars. In a brief time, therefore, not far from two billion dollars have been paid in wages and dividends to those who built the factories and machinery, and to those who supplied the bricks, lumber, cement, and the rest. At least another billion dollars have gone to consumers in connection with producing the machinery which supplies automobile manufacturers with iron, steel, plate glass, lumber, copper, cloth, and paint; two billion more, at least, in connection with capital invested in the oil and tire industries; still other billions in connection with the construction of highways — highways which would not have been built had it not been for the demands and the taxes of car owners.

That illustrates how the development of one large industry increases employment in numerous others. The obverse of the picture was seen in Great Britain in 1926, where the shutting-down of one large industry, on account of the strike of coal miners, decreased employment in many other industries. The loss was felt throughout the British Isles. The iron and steel concerns all but suspended operations, and unemployment in the cotton textile industry more than doubled. All told, more than half a million people were thrown out of work, largely because a million other people, more or less, were not at work in the coal industry. (See Figure 18.)

Nobody knows exactly how much money has found its way into pay envelopes because of the building of all the factories, blast furnaces, garages, filling stations, office buildings, machines, oil wells, refineries, mines, freight cars, and highways, for which the automobile has

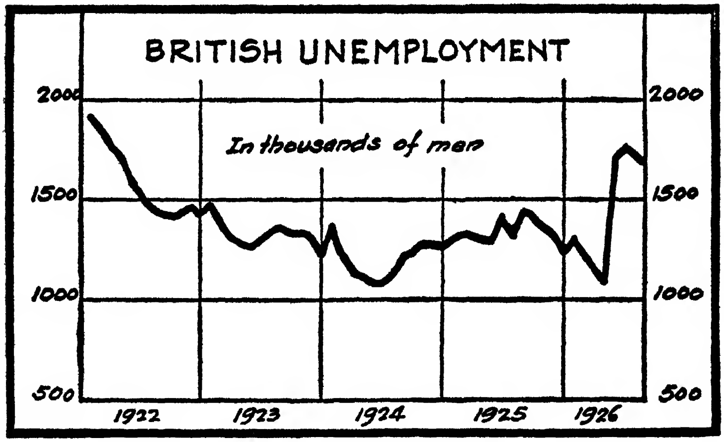


FIGURE 18. UNEMPLOYMENT IN GREAT BRITAIN, 1922–26

The record does not include strikers, nor does it include unemployment in all fields. It reflects chiefly transportation and industry.

been, directly or indirectly, responsible. Everybody does know, however, that the amount of consumer income derived from that source is huge.

No other industry could have been such a stimulus

Suppose there had been no such income, no such manufacturing development. Would all those billions have been used to increase the capital equipment of other industries? Surely not to provide *more* equipment for making iron, steel, plate glass, upholstery leather, tires, aluminum, and nickel. Indeed, without the demands of automobile makers those industries could not have gone as far as they have gone in borrowing money and enlarging their capital structure.

Had not some of the older industries, notably the building industry and the steel industry, expanded as they did,

the birth and growth of a new industry could not have brought marked prosperity. It was the addition of a wholly new industry to developments which, in any event, probably would have taken place to some extent in long-established industries, even without the coming of the automobile, which gave the chief impetus to our recent progress.

If the automobile industry had not sprung up out of nothing, as though called into being by the rubbing of Aladdin's lamp; and if it had not, in the magic of its growth and the contagion of its youthful confidence, put new life into so many contributory industries, what could have taken its place? Surely not the railroads, lacking the three million carloads a year of automobile freight which they now carry. Surely not the cement industry, lacking the great demand which the automobile has created for road-building materials. Surely not the gasoline producers, who now sell to motorists eighty per cent of their product. Nor could any other industry have done so much for business. Even if Henry Ford, with all his genius, had undertaken to make pianos, let us say, or wagons, or printing-presses, or parlor sets, or fur coats, or anything at all other than what he did make, to be sold at five hundred dollars each, he could not possibly have sold enough at a profit to have built up equipment for turning out two million a year.

To be sure, even without the advent of the motor-car, there would have been at least some growth in other lines — notably in motion pictures, in radio sets, in railroads, and in buildings; and to the extent that the *expansion* of these industries brought about an *expansion* of consumer

income, these industries would have done as much for the common good as the automobile industry actually did. But all of them put together — without the six billion dollars or more of consumer income for which the automobile is annually responsible — could scarcely have done more than maintain progress at the pre-War rate.

To have added as much to consumer income during the last fifteen years as the makers of cars have added through the enlargement of plant, the makers of shoes, or cotton cloth, or lumber, or silk stockings, or breakfast foods, or soap, or furniture, would have been obliged to expand their capital equipment from three to one hundred times as fast as they did expand it. That would have been impossible, since it is a well-known fact that these industries, and nearly all others in our country, are already equipped to supply more goods than consumers can buy. That is true, even though the making of millions of automobiles has increased the sales of nearly all other commodities.

As a matter of fact, most of the huge payments made by the automobile industry to consumers have been used by them — not to buy automobiles, for which they surely have not spent more than one tenth of their wages and dividends — but to buy other things. Every storekeeper in Detroit knows that. If our friend, the department-store man, had any means of knowing how many of his own customers derive their incomes in some way, devious though it may be, from the automobile industry, he might conclude that the industry had not been so bad for business, after all. (See Figure 19.)

Much more evidence might be brought to bear on the subject, if we had time to enlarge upon the contrast

between the present economic condition of the United States and that of European countries. Even the most efficient among them suffer by comparison. The case of England is much to the point. Economically, the chief

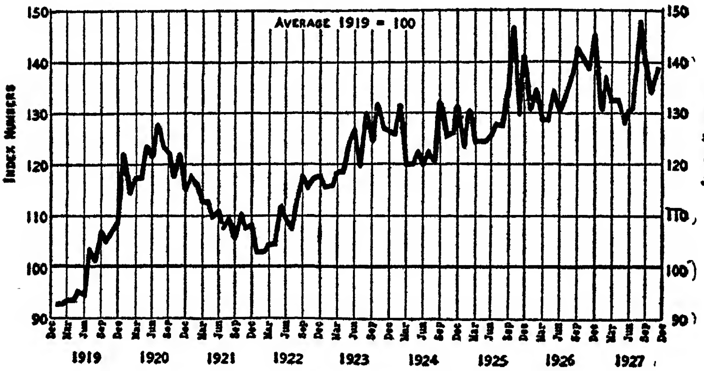


FIGURE 19. INCREASES IN DEPARTMENT STORE SALES, 1919–27
(This index, corrected for seasonal variation, is based on data, compiled by the Federal Reserve Board, representing value of sales in about 350 stores)
(Increases in the sales of chain stores for the same period were even greater. The monthly dollar average in 1927 was 125 per cent above 1919)

difference between England and the United States — not the only difference, by any means, but the chief difference — is that England has not had the advantage in recent years of the vigorous growth of capital equipment. Now, no nation — and this brings us back to the main theme of our argument — no nation can stabilize at any stage of its capital development. It either goes ahead, or it falls behind. If England had developed the capacity for producing 4500 thousand cars a year and the United States 176 thousand cars, instead of the reverse, there is no doubt which country would have gone forward industrially at the more rapid rate.

Certain it is that, during the last fifteen years, the countries which did not have the aid of the automobile industry in achieving extraordinary prosperity did not achieve it at all. The United States would have failed, too, had it depended for its prosperity on growth in any other field. No one industry and no combination of industries in any country has grown rapidly enough to furnish the stimulus to general business which the automobile has furnished in the United States.

The contagious faith of the builders

How great, then, is our debt to the builders of the automobile industry! Theirs has been the vision, theirs the courage, theirs the faith, that has moved mountains of discouragement. Always, according to dire predictions, the business has been about to collapse; always, the saturation point has been nearly reached; and always, the lack of faith of the general public has been recorded in the stock market. Indeed, until the rise in General Motors stock in 1926, all the sound motor stocks sold far below their real worth. Even the Federal Government added to the discouragement, by declaring the automobile a 'luxury,' and curbing the expansion of automobile credit paper.

Nothing daunted, the builders have gone blithely on. Like Nehemiah of old, and the pioneers of all ages, they have said to the calamity specialists, 'Why should we stop building? We will not.' And so, with eagerness to seize new ideas, with quick response to the desires of the people, with amazing technical skill, and with rapid reduction of costs, they have trebled the productivity of their

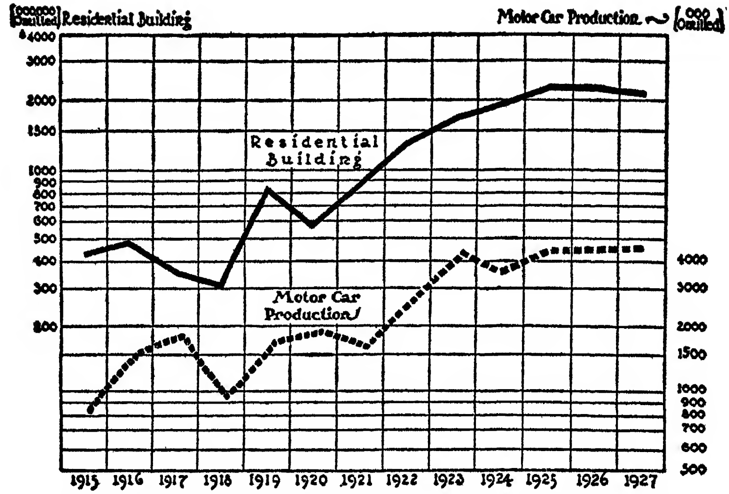


FIGURE 20. COMPARATIVE INCREASE IN HOME-BUILDING AND IN AUTOMOBILE PRODUCTION, 1915–27

(The figure indicates increase in money expended for residential building and increase in motor-car production, 1915–27. Building statistics are for 27 northeastern States on which figures are collected by the F. W. Dodge Company)

(The scale at the right is for thousands of cars produced. The scale at the left is for millions of dollars expended)

workers per man-hour and given the people a highly complicated and efficient piece of machinery at a lower cost per pound than a tub of butter. Thus, they have created an industry which gives employment to three million workers; an industry which yields 700 million dollars in taxes; an industry which stands third in the value of its exports, and first in the value of its products; an industry which has put new life into the whole world of industry, and thus has made a hundred million people more prosperous than otherwise they could have been. (See Figures 20–23.)

Incidentally, the builders of that industry have taught

us this truth: There is no way of making a prosperous to-day except by preparing for a prosperous to-morrow.

Witness the history of Chicago, of Denver, of Detroit, of every other city. How else could Los Angeles have flourished in the desert? Any traveler, crossing the barren wastes of Southern California fifty years ago, could see that, without visible means of support, a city could not thrive on that site, on that impossible site where Los Angeles has since been doubling its population every decade. It was faith in the future — faith made manifest in bricks and steel and cement — that accomplished the impossible. For faith and credit are literally the same thing. Credit is belief — belief in the success of specific enterprises, and that is the proper basis for bank loans. Impelled by that faith, the pioneers went ahead — borrowing money, constructing roads, bridges, schools,

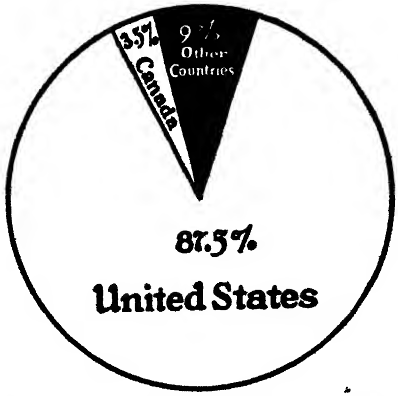


FIGURE 21. DISTRIBUTION BY COUNTRIES OF THE WORLD'S PRODUCTION OF AUTOMOBILES, 1925

(Data from United States Department of Commerce)

COUNTRY	PASSENGER CARS AND TRUCKS
United States	4,175,365
Canada	161,389
France	177,000
England	176,197
Germany	55,000
Italy	39,573
Belgium	5,400
Czecho-Slovakia	5,000
Austria	4,800
Spain	473
Switzerland	450
Hungary	329
Sweden	270
Denmark	75
Total, World	4,801,321

hotels, office buildings, warehouses — not for the embryo city which they saw about them, but for the city of their dreams! It was the bold expenditure of enough millions of dollars to supply water for an imaginary city twice as large which helped to make that city a reality. It was the very money spent in preparing to take care of an additional hundred thousand people which helped to bring them from the East in a hurry, and to support them after they arrived. In much the same way, prosperity has come to the entire country. What the pioneers

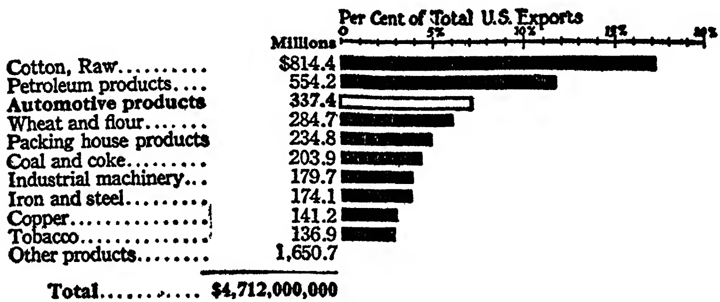


FIGURE 22. VALUES OF EXPORTS OF VARIOUS COMMODITIES, 1927
(Data from Bureau of Foreign and Domestic Commerce)

in the Southwest did for Los Angeles, the pioneers in the automobile industry have done for the United States. In laying the foundations for a better future, they made the present better than the past.

While the destroyers have been telling the workers that they could not improve their condition without overthrowing the wage system, and the money system, and production for profit, the builders have gone ahead, using the established money-and-profit economy as best they could, creating wealth, and adding millions of dollars to

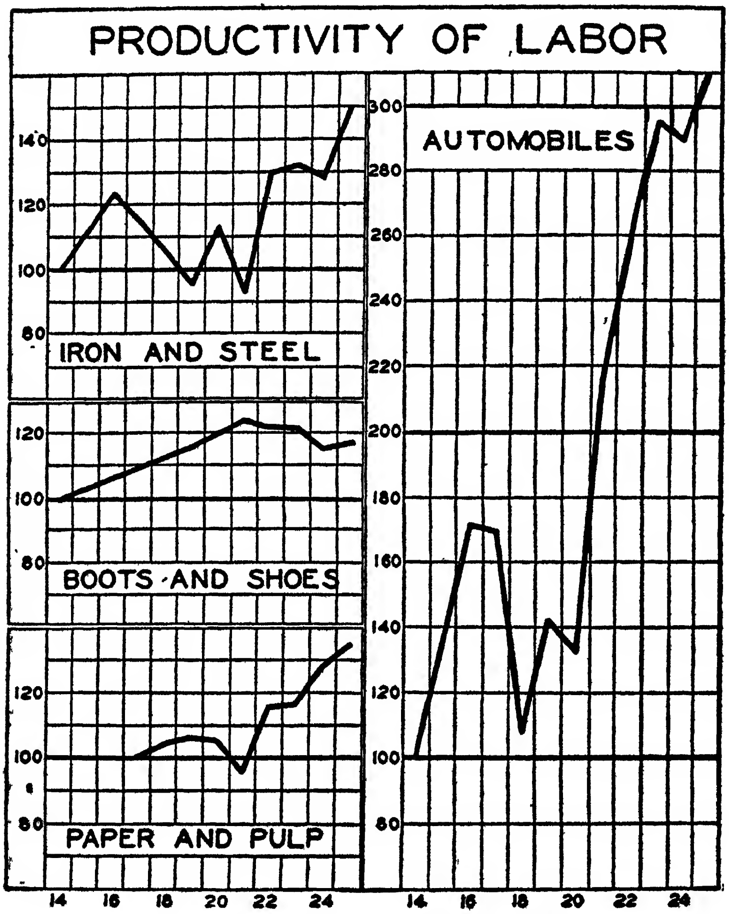


FIGURE 23. INCREASES IN OUTPUT PER MAN-HOUR IN THE AUTOMOBILE INDUSTRY, 1914–24

This chart shows the output per man-hour in four industries, based on the 1914 output as 100. The most remarkable record is that of the automobile industry, in which productivity of labor has increased so rapidly that the output per man-hour is more than three times what it was in 1914.

(Chart from Cleveland Trust Company *Business Bulletin*. Data from *Monthly Labor Review*, July, 1926, United States Bureau of Labor Statistics)

pay envelopes. Thus, they have enabled the workers to buy with their wages fully twenty per cent more than they could buy before there was any automobile industry.

Ten years ago, every wage-earner knew what it would mean to him to get a raise of twenty per cent. It was a keen ambition and a good one. Now the workers as a whole have achieved that ambition — at least six dollars of purchasing power in their pay envelopes for every five dollars they used to have. So the average worker can now buy an automobile, and ride to work in it every day, and park it in the factory line — if he is lucky enough to find a place — and take his family into the country on Sundays and holidays, and have money enough left to buy fully as much of other things as he bought before the automobile was invented. (See Figure 1.)

Since we are concerned only with what the automobile has done for business, we have said nothing about its effect on health and recreation. Nor have we mentioned its influence in sending congested populations into the suburbs, and in making rural life more livable. On the other hand, we have taken no account of the laziness, misdemeanors, crime, and loss of life which must be charged against the account of the automobile. It is our opinion that, all things considered, the automobile has made a large net addition, not only to the passing pleasures, but as well to the durable satisfactions of life. Concerning the effects of the industry on material welfare, however, nobody's mere opinion is of any interest, for the effects are measurable with sufficient accuracy to support our opening statement: The present material prosperity of the United States is due chiefly to the automobile.

Contrasted with pre-War conditions, that prosperity is gratifying; but, as we said at the outset, it falls far short of what we ought to realize from our amazing advances in technical efficiency.

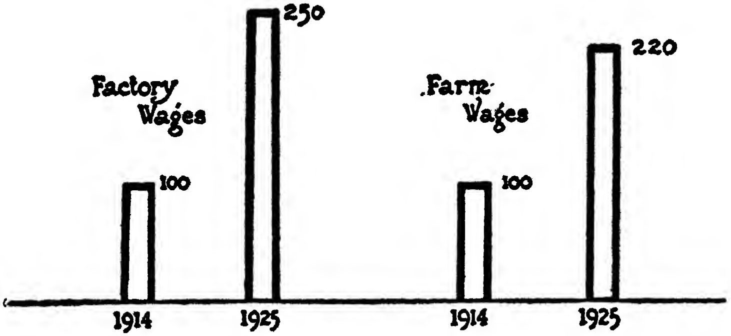


FIGURE 24. PURCHASING POWER OF WAGES, IN TERMS OF AUTOMOBILES, IN 1914 AND 1925

The exchange value — in other words, the purchasing power of wages for automobiles — has increased 150% since 1914. This partly accounts for the demand for motor cars. This increased purchasing power of wages in buying automobiles is due to lower automobile prices, as well as to higher wage rates. Factory wages advanced from an index of 100 in 1914 to 215 in 1925; while automobile prices declined from an index of 100 to 86.2.

(Data from the following sources: factory wages, National Industrial Conference Board, Inc.; farm wages, United States Department of Agriculture; automobile statistics, National Automobile Chamber of Commerce. Automobile prices are the averages obtained by dividing aggregate value by number produced, in 1914 and in 1925)

What of the future?

How much of the potential growth shall we realize in the years to come?

For the last four years, money in circulation has expanded with the aid of the automobile industry at just about the right rate to make possible a dependable prosperity, one that with wise planning we may reasonably hope to perpetuate; but money has not been allowed to expand rapidly enough to plunge the country into

the treacherous kind of prosperity that is born of inflation.

That wholesome condition, as we shall explain in a later chapter, is partly the result of the wisdom with which the Federal Reserve System has been administered in recent years. At any time, however, such a situation may develop that the Federal Reserve System cannot sufficiently influence either the gross volume of money in circulation or the uses of money to maintain sound business.

The trouble is that the amount of money in circulation is largely determined by the borrowing of tens of thousands of private concerns and public agencies — Federal, State, and local — each acting on its own initiative, to serve its own purposes, with no responsibility for prosperity in general; in fact, operating in a money-and-profit economy in which it would do more harm than good for each individual to make *general* welfare his first consideration. It is only by chance, therefore — the good fortune of the coming of the automobile, and the added good fortune that its capital structure was built in this country rather than abroad — that the combined result is as satisfactory as it has been of late. The chief factor in that chance has been *the rate of growth* of the automobile industry.

That rate of growth cannot long continue. Just as there would have been a deficit of consumer buying in the past, had not that deficit been avoided by the growth of the automobile industry, aided by instalment selling, so there will be a deficit in the future unless it is filled from other sources. Some large new development is imperative. The

present prosperity of the United States cannot be sustained unless some other industry, or combination of industries — aided by an equally effective expansion of instalment selling or, far better, by a sufficient expansion of consumer income — develops as rapidly in the near future as the automobile industry has developed in the recent past. Even if the long-predicted collapse of that industry does not come, even if automobile production is maintained at approximately the present volume, the automobile industry cannot continue to lift business in general to higher levels. Indeed, unless there is sufficient expansion elsewhere, the automobile industry itself may suffer a slump.

Prosperity came to the present generation largely by chance; it did not come because either organized business or the Government foresaw the necessity for a rapid growth of capital expenditures and deliberately planned to bring it about at the right rate. It did not come because high tariffs prevented Europe from overrunning this country with cheap foreign cars. It did not come because the people of the United States are a superior race. Other nations, with equal intelligence and capacity for work, have had no such good fortune.

Now, we should strive to attain, by planning, the benefits which have come to us in the past largely by chance. Of late, various commissions from abroad have come to study the causes of our great prosperity. We, too, ought to study them. That is why it has seemed worth while to make the studies upon which this book is based.

In seeking now to plan deliberately for a better future, we must find out how to make sure that the right amount

of money flows into use in the right way. If we can do that, there appears to be no reason, short of a world calamity, why the present progress cannot continue for many generations.

Those who have followed us to this point may well be impatient. 'No doubt you are right,' they may exclaim. 'Business cannot keep on prospering unless consumers keep on getting enough money; and that will not happen by chance. We do not need any more argument on that point. Now, then, what can be done about it?'

Our answer to that question we have postponed, because we believe that a recognition of the existence of the problem will take us nine tenths of the way toward a solution. As in medicine, so in economics, diagnosis is usually the chief difficulty. As yet, however, business men and bankers, as a rule, as well as economists and statesmen, are not prepared to admit that there is any such problem. That is why we are still expounding the problem itself, first from one viewpoint and then from another.

CHAPTER VII

THE NEW ITALIAN RENAISSANCE

HOW CAN MUSSOLINI MAKE HIS PEOPLE PROSPER?

SCARCELY a day passes without some new evidence of the amazing renaissance of Italy. The entire country, fired by the contagious enthusiasm of the irresistible Mussolini, is quickened, resourceful, determined, confident. New industries are started, new power is brought down from the Alps, new ocean freighters are sent after new markets, new capital is drawn from abroad. Idlers are dropped from the public service. Strikes and lockouts are forbidden and hours of labor are lengthened by decree. Public works are projected on a scale that suggests the magnificence of Imperial Rome. The engines of the Ship of State are throbbing with new power.

Never before has any country in so short a time launched itself, with such a splashing of the waters and such a cheering of the crowds, upon so adventurous a voyage. What is the destination? Will the Captain of the Ship enable everybody to profit by this great adventure?

In every other nation jubilant prosperity and abounding productivity have ended in depression. The boom of industry, like the boom of a frontier town, has suddenly collapsed. Will the advance in Italy end as have all the others? Or will Mussolini boldly cut loose from traditions in economics, as he has in politics, and do whatever

is necessary to consolidate his gains? Will he, unlike all other dictators in history, find a way to bring to all his people, decade after decade, the full benefits of their increased productive capacity?

One thing is certain: Italy is meeting the same difficulties which have confronted every other nation in its attempt to make full use of its increased powers. For what we said of the United States is equally true of Italy.

The rapid increase in the capacity of the United States for creating wealth is so well known that it excites little wonder, though it is, in very truth, as amazing as the powers of the magic carpet. We have already spoken of the astonishment with which Benjamin Franklin, could he return to earth, would view the processes whereby men pluck solid wealth from the thin air, and call down from the mountains, along slender wires, the mighty forces of a thousand rivers. Pregnant with possibilities, all this — new resources, new energy at our command, new uses for waste, new efficiency in mass production, new means of communication — productive powers which, working together, enable a single laborer to do with ease, in five eight-hour days, what it formerly took a dozen laborers six ten-hour days to perform.

Yet, compared with such almost incredible advances in our knowledge of the means of producing wealth, how incredible it is that we do not use our new-found powers to better advantage! And how incomprehensible that every great industrial nation finds itself, periodically, with millions of workers who can find no work to do!

How anomalous, indeed, that the United States should

find itself so exceedingly prosperous that the experts, almost with one accord, predict a general decline! Is it really true that our economic machinery *must* break down, merely because it succeeds in doing so well precisely what it was designed to do? Here we are to-day, with far greater technical knowledge and skill than ever before, with more productive machines, more materials to feed to the machines, more laborers to operate them, more human beings to use the products — human beings with more wants than ever before. Here we are, at the same time, with more money than ever before to facilitate the exchange of whatever these men and these machines can contrive to make out of these materials. Yet the economist in the study and the business man in the market-place agree that no means will be found of keeping the machines, materials, men, and money in such relation to each other that our prosperity can long continue.

How long can Italy prosper?

Must the prosperity of the New Italy also collapse? Will Mussolini inspire all his people to labor longer and harder for the glory of Italy, only to tell them that they have worked too well — so well that he can no longer find work for them to do?

That would be humiliating, indeed. Deliberately curtailing the production of wealth, when eight hundred dollars represents more wealth than the average laborer in Italy receives for a year of hard work! Reducing crops, banking furnaces, shutting down factories, when millions are in dire want! Setting up an amazingly efficient industrial machine, only to have it become clogged with

overproduction, when the very workers who want to operate the machine are suffering from underconsumption!

Underconsumption — there, in a single word, is the key to Mussolini's problem. That may sound like too simple an answer to a question which, for a century past, has appeared to baffle the entire world of theory and practice — the economists as well as the business men. Yet that answer, we fancy, will sound reasonable to Mussolini; for he is well aware that the final end of the great economic machine, with all its anomalies and complexities, is after all very simple: the consumption of whatever it succeeds in producing. He knows that cotton is not raised to fill warehouses, cigars are not made to stock shelves, and gowns are not made to decorate shop windows. Even the cotton gins, tobacco cutters, and sewing machines are produced solely that they may be used up in the process of making commodities which in turn are going to be used up.

The millions of Italians busy at their innumerable tasks — growing olives, making lace, dipping chocolates, painting scenery, printing tickets — what are they all about? One end they have in common. They are at work — as long as they are allowed to work — solely because it is believed that somebody will buy and consume the things which they are helping to produce.

The early New England farmer had no doubts on that point. He cut wood for the one purpose of burning it up. His chain of industrial processes extended only from the wood lot to the fireplace. When, however, his grandson began to cut wood for a contractor, who sold it to a mill-

owner, who turned it into pulp and sold it to a manufacturer, who turned it into paper and sold it to a wholesale merchant, who sold it to a printer, who made it into a spelling book and sold it to a book-dealer, who sold it to a carpenter, who turned it over to his son Johnnie, then the chain of processes from the forest to the schoolroom was so far-flung that it was difficult for the woodman to see that he, precisely like his grandfather, was cutting wood merely that it might be used up by a final consumer. It is no wonder if it seemed to him that the purpose was fully served when he got his pay envelope. It was easy for him to overlook the fact that he and all the other men who labored on that wood, from the forest to the schoolroom, were employed solely in order that Johnnie might use up the spelling book.

Easy to overlook, and yet that is perhaps the first of a few simple truths, the significance of which Mussolini must grasp before he can understand why the industrial world does as well as it does, at times, and why it always falls distressingly short of doing what suffering humanity eagerly wants it to do, and what it seems fully equipped to do.

Let us restate that first simple truth: The one objective toward which are directed all the multifarious economic activities in Italy, as in every other country, is getting the products of industry into the hands of people who will use them up.

Mussolini already sees clearly that his people, year in and year out, cannot consume more than they produce. Will he also see that their capacity to produce will be limited by their capacity to consume?

'Produce more and consume more'

The second truth which he must grasp is equally simple. Yet if he will examine its bearings on the liveliest of political problems — on the tariff, for example, and on foreign trade, on thrift and on taxes — he will find that this truth — a truth so simple and so fundamental that it has not been denied even in a field where denial of doctrines is the rule — has escaped one great leader after another. It is a case of being hit on the head with many a falling apple without discovering the law of gravitation. We refer to this basic fact: There is no way in which the people of Italy can fully enjoy the wealth which they succeed in producing except by consuming that wealth or the equivalent.

(We refer, of course, only to commodities which are produced for final consumption, and which are of no use for any other purpose. It should go without saying that part of the wealth which any country produces must be saved as capital goods, in order to increase the facilities for turning out that part of the wealth which is intended for final consumption. Without such saving, economic progress is impossible.)

'Produce more and consume less' may be the necessary program until the balance of trade is restored; but the permanent program should be, 'Produce more and consume more.'

The consumption of goods, it is true, is not the sole benefit which the individual workman gains from the production of goods. From the work itself, he derives benefits. Chief among them, for some workers, is the satisfaction of the creative instinct. Even that satisfaction,

however, is based on the belief that somebody is going to use and enjoy the product. The workman who stands all day in a factory, putting tires on cars, as they pass before him in an endless procession, gets some reward when he sees happy families riding on country roads, all the happier because he has done his work well. Intolerable to him would be the daily routine if he knew that the cars which he helped to assemble in one room passed into another room only to be junked. What thrill would the grower feel, even amid the glories of Amalfi and Sorrento, if he knew that he was raising oranges merely to have them rot on the trees? As a matter of fact, scarcely any worker could endure his job unless he thought that the product would be used by somebody. Whatever the day's work may bring incidentally of joy or pain, always it is directed toward one final end — the using-up of the product.

These, then, are among the simple truths which Mussolini must take into account if he is to build a new economic system on firm foundations: First, the final end of that system is the consumption of goods; second, apart from the joy in the work itself, it is almost exclusively through the consumption of goods that the Italian people will derive any benefit from the production of goods.

It follows that no matter how efficient the new régime may be in other respects, it will be defective unless it enables the Italians to acquire and consume whatever they produce, or the equivalent, about as rapidly as they can produce it.

No nation, however, has ever achieved that end for any length of time. Mussolini, naturally, is asking the reason why. By the same incisiveness with which he

reaches the heart of other problems, he will discover, no doubt, that the only reason why people do not long continue to consume goods in general as fast as the business world gets them ready, is that the people who want to consume these goods do not receive enough income to buy them. That is the third of the simple truths upon which Mussolini will have to build up his new economic system.

The next question, naturally, is how it happens that the people, as consumers, do not acquire enough money to buy the goods which, as producers, they succeed in producing. Again, let us point out, it is because the money is diverted into the savings of corporations and of individuals. Both corporations and individuals *must* save; yet at times thrift actually defeats the social object of thrift.

Italy has a unique opportunity

What of it? That question, fortunately, we can consider, as applied to autocratic Italy, without being confronted with the political difficulties which in a democracy beset every attempt to put any new program into effect. Nobody doubts that Mussolini can do anything that man can do. Formerly, when we wanted to regale our imagination with the exercise of unlimited power, we used to exclaim, 'If I were King!' How quickly we should set things right, if we could do it with a regal gesture! But new occasions have taught us new dreams. No longer is the sceptered monarch our symbol of power; for nowadays, if the King can do no wrong, it seems to be because he is not allowed to do anything. So it is not for kingly power that we sigh. Instead, we exclaim, 'If I were Mussolini!'

Compared with this new Cæsar, the autocrats of old seem feeble. All the power there is — political, military, economic — he has gathered unto himself. The Ministry of War, the Ministry of the Navy, the Ministry of Aeronautics, are in absolute control of the Commander-in-Chief of the Fascist national militia, the Generalissimo — who is Mussolini. The Chamber of Deputies and the Senate are in effect superseded by the Grand Council — which is Mussolini. All the officers of province, city, town, and village are appointed by the Fascist Party — which is Mussolini. Even the local Fascist secretaries are now appointed by the provincial secretaries, who hold office from the Secretary-General, who holds his office as long as he does the will of the Premier — who is Mussolini. Dreams of omnipotence, incarnated! As with the turning of a switch the engineer in the power house can make Niagara do his bidding in a thousand places, so, with a stroke of a pen, the Dictator can make the forces of a kingdom work his will.

His will, fortunately, is to make his people happy — all his people — the factory hand and the fisherman, the clerk in the post office and the laborer in the vineyard. To every one, everywhere, he wants to bring more and more of the durable satisfactions of life. It is a great purpose, indeed the one purpose which should dominate government, whether that government is a democracy or a despotism.

Patriotism without production is poverty

The people of Italy, however, cannot be much happier until they are much more productive. They cannot be

happy when they are hungry and cold, and even a dictator cannot distribute corn which is not raised and coats which are not made. Somehow, as Mussolini well knows, he must enable capital and labor to bring forth and continue to bring forth more and more of the necessities and comforts of life. Somehow he must gain and keep industrial prosperity.

That is an economic problem: he can solve it only by sound economics.

'Believe in your country,' he cries, 'struggle for its interests, glory in its traditions, and everything else will be added unto you, including economic prosperity.'[30] To which the matter-of-fact economist replies: 'Not necessarily. Love of country did not show men how to make artificial silk out of wood, and it will not enable them to extract aluminum from clay. Enthusiasm cannot take the place of fertilizers, nor shouting, the place of dynamos.' Nobody imagines that it was loyalty to national traditions which trebled productivity per man-hour in the motor-car factories of the United States. Nor does anybody fancy that Mussolini can make progress of that kind by firing the populace to white heat with visions of 'Imperial Rome, crowned again on her seven hills.' Patriotism without production is poverty.

Mussolini himself is aware that he cannot achieve his great purpose without applying improved processes to the arts of production. But that is possible for the land of Columbus and Marconi. Some other countries, it is true, have superior natural resources in minerals, oils, and farm lands; but Italy has one great, undeveloped natural resource — a resource which, in fact, largely lies fallow in

most countries. Yet it is the one resource above all others which will determine industrial leadership in the next generation. That resource is the human brain. Unlike other natural resources, it does not become depleted with use, nor does it know any law of diminishing returns.

The industrial prestige of Germany in the past was not due mainly to superior mental endowment; it was the result of superior support given to German scientists. In the future, whatever country gives chemical engineering the strongest support is likely to achieve most in conserving heat, preventing epidemics, calling forth fertilizers from the air, and putting the sun's rays to work. Chemists are constantly discovering new methods, as a result of which old factories are scrapped overnight. Not long ago, indigo growers all but lost their industry when a method was discovered of making a purer indigo from the waste products of coke manufacture. Recently, chemists have learned how to make wood alcohol by a method so cheap that it threatens to put old producers out of business. Before long, some nation is likely to lead the way in making synthetic rubber and substitutes for gasoline. There is scarcely an industry which may not be revolutionized any day by the outcome of some laboratory experiment.[31]

Commissions, visiting the United States to discover the secret of our great prosperity, report that it is 'mass production'; but do they understand that mass production would have been impossible without persistent scientific research? Consider, for example, such a simple matter as the painting of motor cars. To paint four and a half million cars in 1926 by the slow methods of a decade ago

would have required an additional thirty million feet of floor space and an extra army of workmen. In order to make prices low enough to sell so many cars, it was necessary to make many new discoveries, including quicker and cheaper methods of painting. So new methods were discovered. Pyroxylin paint came because producers had to have a paint which would dry fast enough to keep up with production schedules.

What might not happen if the faith which the DuPont Company has shown in the practical value of scientific research became the faith of all Italy! And who can doubt that Mussolini, with his 'inexorable will,' can make that faith triumphant? 'People are sick and tired of politicians,' he says. 'What we have to bring into existence is a great aristocracy of experts.' True; but no more patently true of official life than of industrial life.

The New Italy is now the 'promised land'

Among the Italians, America has long been called the 'promised land' — the land of plenty, where every man who is willing to bend his back under hard work can find work to do, work that brings larger and larger real wages. Now, the promised land is the New Italy that is to spring forth from the dreams of Mussolini.

Nobody expects Italy, within the next ten years, to develop a new industry as large as the automobile industry in the United States. *Under one condition*, however, Italy *can* build new industries which will increase the comforts of the Italian people as rapidly as the growth of the automobile industry has increased the comforts of the people of the United States.

Under one condition, we say, and that brings us back to our first simple truth: The only way the Italians can enjoy the industrial achievements of the New Italy is by consuming its products, or the equivalent.

In the past, however, when a nation has set out to lead the world in productive efficiency, it has usually been bent on forcing other nations to consume its increased output. That has meant seizing a foreign market that is occupied by some other nation. The game should be called 'puss in the corner.' With every rush of the contestants, somebody is left out.

See, then, what happens! The United States now has the capacity for making more motor cars than can be sold at home, even though three quarters of the buyers are allowed to ride away in the cars without paying for them. In fact, the United States is already equipped to supply the whole world, and would no doubt get ready at short notice to supply another world, if one could be found. Consequently, the United States is making greater efforts to sell cars in England. But England also can make more cars than her own people can buy; and, moreover, she has at her factory gates a million workers for whom no work can be found. So England is trying to sell her surplus cars to France. But France does not want to take them, for she herself is equipped to make more cars than her people can buy. She cannot sell her surplus to Germany, for Germany is playing the game, too. The fact is, there are not enough corners to go around.

What chance has Italy in such a contest? She cannot gain much, it would seem, by trying to force upon other countries the very goods of which they have a superfluity.

Why not see what can be done at home? In Italy, only one person in 339 has a car; while in the United States the ratio is about one to six and a half. The difference is not so much in desire as in purchasing power. Let Italy increase her output, let her increase the income of the people in right proportion, and they are certain to buy more Italian cars. In this connection, it is well to recall the fact that the United States prospered through the growth of the automobile industry, not by forcing the cars on foreign markets, but by enabling the people at home to buy fully seven eighths of the output.

The search for new markets should begin at home

Our immediate interest, however, is not in automobiles. What we have said of the efforts of each country to sell its 'surplus' automobiles to countries which are producing a surplus of the same commodity is true of commodities in general. The productive capacity of the world exceeds the money demand of the world. The nations, therefore, are struggling for foreign markets which do not exist. Meantime, and partly for that very reason, they are neglecting opportunities to create new markets at home.

What part of the increased home demand for automobiles it will be good sense for Italy to try to supply from her own factories, and what part it will be to her profit to allow other countries to supply, is something which nobody can foretell. Our point is that Italy's efforts to find customers for her increased output of goods in general should begin at home.

To make Italy the promised land of plenty, Mussolini must discover, week in and week out, precisely which

commodities the people are most eager to consume in larger quantities. That will be the easiest job in his whole portfolio of jobs; for the people will express their wishes in that regard every day, by the lira votes which they cast in the markets of every nook and corner of Italy. That will be a democratic system of suffrage, even under a dictatorship, with polls open to everybody, and with the votes recorded promptly and accurately. Moreover, the will of the people, thus recorded, will be obeyed by the industrial world, for that is the way to larger profits.

In order to obey that mandate of the voters, however, Mussolini must determine how much of the wealth which they want to consume will have to be imported, and just what goods Italy can export in payment, with least sacrifice to herself. But he will have to remember what the United States appears not yet to have discovered; namely, that the chief purpose in sending wealth out of the country is to bring more wealth into the country.

Even if Italy succeeded in maintaining an excess of exports over imports, by means of high tariffs, or by selling her products abroad at lower prices than at home, or by lending more money to her debtors, or by parading an awe-inspiring navy upon the high seas, or if Italy succeeded by any other means in achieving a 'favorable balance of trade,' the net result would be less wealth for Italians to consume and more for other people to consume. Some misguided patriots, to be sure, would revel in the statistics; but they could not eat the statistics, or wear them, or ride around in them. Every yard of cloth which they sent abroad, in excess of the value of the goods which they received from abroad, would lower the standard of

living at home. The people gain no enjoyment from what they produce, in so far as it results merely in the accumulation of credits abroad. No nation ever became more notable than England for its wealth abroad, or more notorious for the poverty of many of its workers at home.

Broadly speaking, all the enjoyment which the Italian people are going to gain from their industrial activities in the next ten years is what they themselves consume in the next ten years. World markets, spheres of influence, prestige upon the seas, colonial development, foreign credits — these will mean very little to the Italian laborer, except in so far as they are coined into lire and slipped into his pay envelope.

What a bitter disappointment it would be to the Italians if they entered upon a glowing era of industrial prosperity, only to be plunged into industrial depression! On the other hand, how beneficent would be the rule of the Despot Mussolini, if while forcing his people to produce abundantly, he enabled them also to consume abundantly!

What business with a buyer would mean

Suppose he maintained such a flow of income that his people always received, over and above their savings, just about enough money to buy the output of their growing industries. Then there could be no general overproduction; no general collapse of prices; no throngs of workers out of work; no reason, therefore, why wage-earners as a body, or employers as a body, should ever want to curtail output. Then it really would be, and clearly would be, for the common good for everybody to keep on doing his best to make Italy more and more productive.

Under such conditions, organized labor would have no reason for curtailing output in order to make jobs last longer. There would always be jobs for every one who wanted to work. Moreover, since increased production in general could not bring about a depression of business in general, it would be plain to everybody that curtailing output meant curtailing the standard of living.

What a blessing that would be to each producer! He could go ahead confidently increasing his output, having only to guard against the overproduction of his own product, knowing that business as a whole could not possibly collapse merely because it had become too prosperous. A producer of tires, for example, would be sure that, no matter how rapidly industry as a whole forged ahead, the people would be just as able to buy the larger output of goods next year as they are to buy the smaller output this year. Under such conditions, he would know that production in general could not expand too rapidly. He would not have a moment's worry over the rate at which other commodities were springing forth from field and factory. All he would have to guard against would be the overproduction of tires. Under such conditions, business men would have no reason to object to the growth of imports, since the flow of money to consumers would be enough to absorb all the imported goods in addition to the domestic goods. It would then be just as blessed for a nation to receive as to give. Foreign trade would not have to be unbalanced, in order to be 'favorable.'

Then each wage-earner would gain from industry what he most desired. For he would never be without work

merely because the people had created more wealth than they were able to buy. He would never have to walk the streets, week after week, in search of a job, merely because there were a million more willing workers than all the employers put together were able to employ. More than that, his work would bring him what every worker longs to attain, what every worthy worker has a right to attain — a steady increase in the reward for his labor. Workers, as a rule, do not long for fabulous wealth; they do not envy millionaires; they do not demand more wealth than it is possible for the world to produce. The rank and file of wage-earners, as everybody has discovered who knows them well, have set their hearts on nothing more than moderate gains in material wealth — a third more than they have, perhaps, with gradual increases, leading to the possibility of realizing part of their increased returns in leisure.

In our discussion of what the automobile has done for the United States, we tried to picture the increased happiness of the people — the material comforts, the shortened hours of labor, the gains in health, the better care of children, the increased savings and consequent lessening of anxiety concerning the future — all resulting from an increase of twenty per cent or more in real wages. That increase, we pointed out, was not the result of greater abstinence. Quite the contrary. It came about because, to that extent at least, the buying power of consumers and their actual buying expanded with the productive power of industry.

Here, then, is an opportunity for Italy to do what no other nation has ever fully succeeded in doing. For,

though it surpasses even the power of the Dictator to give his people wealth which has not been created, it is entirely within his power to regulate the flow of income so as to distribute whatever has been created. Money is, in fact, the only commodity over the supply of which he has absolute control. In any event, he will determine the income of his people; and it will be almost as easy to make the amount exactly right as to make it too large or too small.

Given a steadily increasing flow of goods into home markets; given a flow of money to consumers increasing at just the right rate to provide, after the deduction of savings, for the purchase of all the goods that came into those markets; and there could be no inflation of the currency. For money is sufficiently stabilized, no matter what else happens, whenever the goods that are bought and the money that is spent for those goods increase at about the same rate. Stable money is not an end which should be sought for itself, as many of its advocates seem to think. It is a means — an important means, to be sure, but only a means — toward the attainment of the right flow of money to consumers. To have a 'managed currency' is not enough; all currencies are managed currencies. The trouble is that they are often badly managed, and never managed for the express purpose of enabling the people to consume what they succeed in producing. Let the flow of income to consumers be rightly managed, and the flow of money through all the channels of trade will manage itself. The result will be a dependable monetary unit.

No doubt it has occurred to those who have read the

previous chapter that it will be particularly easy to get the right amount of money into circulation in the right way, without danger of inflation, in a country where the standard of living is low, and where the need of employing all available labor in constructing new facilities is correspondingly great.

In achieving that end, Italy under the Dictator has a great advantage over a democracy. To carry out such a policy in the United States, it will be necessary to convince a large number of men of its soundness. Mussolini, however, does not have to wait until the Chamber of Deputies has held long debates over the problem of sustaining consumer demand, and has tossed the issue back and forth between political parties. In Italy, only one man needs to understand what must be done; and lo! the thing is done.

Should Italy seize a 'place in the sun'?

It sometimes seems, however, from the flamboyant utterances of the Dictator, as though he expected to achieve the culmination of his great purpose, not by sound economics, but by military force. The program of Fascism, he declares, is still summed up in the one word — Fight. To which his mouthpiece, the *Tevere*, adds: 'Peace speeches are all very well for the sons of France, England, and America; but we wish to teach our children the use of arms, even before they learn to speak.' Again and again, Mussolini reminds his people that Rome was once mistress of the world. 'We need more land,' he says, 'for we are too numerous for our present territories. . . . It is the hand of destiny that guides us back to our ancient possessions.

. . . No one can stop our inexorable will.' 'Your impatience,' he promises the cheering crowds, 'will be appeased some day. . . . The great hour does not strike every day.' And again, 'I have a rendezvous. When the time comes, I shall tell you the place and you will come.'

Reminiscent, all this, of the once-belligerent Kaiser. It recalls the 'iron will' and the 'mailed fist' of Germany, the cries of 'Deutschland über alles' and the toasts to 'Der Tag.' In fact, not since the resplendent visit of the ex-Kaiser to the Near East has there been such a pyrotechnic display of imperialistic ambition, as in the voyage of Mussolini to Tripoli. Such a striking similarity between the pronouncements of the former German Emperor and the present Italian Dictator might prompt a student of history to say, 'If I were Mussolini, I should learn what I could from the Kaiser's experience.'

During a warless quarter of a century, German chemists and biologists and physicists, in the peaceful seclusion of research laboratories, won world markets. Nobody ever ordered anything from Germany because he heard the rattling of swords. If he bought German goods, it was because no other country could supply what he wanted at so low a price. Even if it had been possible to seize markets by military force, it would not have been possible to keep them in that way. 'You can do many things with bayonets,' observed a German general, 'but you cannot sit on them.'

Germany's productive capacity became so much greater than the purchasing power of her people that she tried to take outside markets by force. That was, at bottom, the meaning of her demand for 'a place in the

sun.' Thus her diplomatists and her fighters lost for her the enviable place which her scientists and her workmen had won, in laboratory and school, in mine and factory.

With a calm view of these achievements of Germany in peace and in war, who would exclaim, 'If I were Mussolini, I should seize foreign markets'?

Every student of history knows that the policy of Imperial Germany was madness. No doubt Mussolini himself knows it. His Kaiser-like pronouncements seem to be intended only for home consumption — fuel to feed the flames of national enthusiasm. For the most part, his hard-headed deeds belie his grandiloquent words. In action he shows practical sagacity.

Nevertheless, in the thick of the struggle to crown Rome again on her seven hills, even Mussolini may find it difficult to remember exactly what the struggle is for. He will show true greatness if, in spite of dreams of empire and draughts of intoxicating power, he keeps his head clear enough to remember why he is seeking prosperity. It is not in order that Italy may be feared. It is not that she may wrest markets away from somebody else. Assuredly, it is not merely that all the other peoples of the earth, from Americans to Zulus, may enjoy more of the good things which Italian laborers succeed in producing. Far from it! The one end which Mussolini should keep constantly before him, as he strives to strengthen his beloved Italy, is that which he first set his heart upon: enabling his own people — all his people — to enjoy more and more of the good things of life. All other great nations, we say again, have done much less than they might have done toward attaining that end, because they have

not succeeded in adding, to their efficient systems for getting goods produced, equally efficient systems for getting goods consumed.

Would any nation have cause to fear Italy because her people, imbued with a new spirit, reached new heights of industrial efficiency? Would it harm anybody to have all the Italians busy and happy, discovering new sources of wealth under the microscope and in the test-tube, bringing down water power from the Alps, reclaiming waste land, developing new enterprises, inventing more productive machines, providing work at home for all who wanted to stay at home, paying fully with Italian goods for all the goods they imported, and raising their own living standards by making full use of their increased productivity? Surely, no nation need fear such an achievement. On the contrary, the blessings of such an Italian renaissance would spread around the world.

Let us hope, therefore, that Mussolini, while he has the power, will teach the whole world a lesson by enabling his own people to enter progressively into the full enjoyment of their own creative powers.

CHAPTER VIII

OUR FOREIGN TRADE

HOW HELPFUL IS A BUYER WHO IS NOT ALLOWED TO PAY?

SAM WITHAM, as everybody knows, has kept the corner store at Sandwich Center going on thirty years, and for the past ten years has been the safe and sound President of the Sandwich Center Bank. Everybody has not heard, however, the rumor about his strange and sudden streak of reckless liberality toward his debtors.

It is said that Joe Turner, who owed a balance of $18 on a mowing machine, which debt it was clear enough he would never pay in cash, came into the store and offered to settle the account with eggs. 'No,' said Sam, 'I can't accept your produce in payment; but don't let that bother you. Order whatever you like, and go ahead running up bills.'

Then there was the case of the Something-for-Nothing Fur Company. They say that the company borrowed $1800 from the bank, with which to begin raising furs on Sandwich Island. Its only capital, apart from the borrowed money, was an idea. That idea, like all great ideas, was simple. The company proposed to produce furs at virtually no expense, by keeping cats and rats on the island; skinning the cats and feeding the bodies to the rats; skinning the rats and feeding the bodies to the cats; and so on, with endless profits.

As no profits were realized, however, the head of the

company soon went to the bank for a new loan. 'Let me explain,' said he, 'how we can earn the money with which to pay what we already owe you.'

'Don't bother,' answered Sam Witham. 'We'll not look too closely into that question. It is enough that you want another loan. Here is the money.'

But why go on with such a fable? Everybody knows that Sam Witham — sound, practical, thrifty, typical American business man that he is — would not for a minute have handled local financial affairs in that way. Indeed, if he had done so, his store and his bank would soon have been in the hands of a receiver, and he himself in the hands of a receiver, too, as soon as an asylum could be found to receive him.

The fact is, however, incredible as it may seem, that Sam Witham, as a citizen of the United States, together with all his fellow citizens, is conducting international financial affairs in some such way. The foreign debtors, it is true, are not bankrupt, nor are they using all their loans in futile enterprises; but in certain essentials, as we shall see, the two situations are similar.

The need of 'a favorable balance of trade'

Some readers, no doubt, have followed us as far as this chapter with entire agreement. They see that savings, unless offset in some way, cause a deficiency of consumer demand and a consequent recession of business. They see that the growth of instalment selling, as a temporary substitute for dollar demand, has partially offset the deficiency caused by savings and thus has helped to postpone a recession of business. Most of these readers also

see that the growth of the automobile industry has helped to make up the shortage of consumer demand caused by savings, because expansion of capital equipment, in preparation for future production, involves an expansion of money and of consumer income. And, presumably, readers who have accepted all these conclusions have had no difficulty in applying them to the problems of Italy. They see that Mussolini can make his people prosper only by enabling them to enter progressively into the full enjoyment of their growing, creative powers, which purpose he can accomplish only by enabling them to buy as much as they produce.

Some readers, however, will find it impossible to square these conclusions with their views concerning foreign commerce. They have always believed that prosperity required 'a favorable balance of trade.' They have grown up with the conviction that our industrial progress and our American standard of living depend on our ability to sell abroad 'a surplus' production of goods in general beyond all that we can usefully take in exchange. They have never questioned the orthodox views on this subject. So, naturally, they have accepted the teaching of the *Bank Catechism*, issued by one of the largest banks in the United States, to the effect that 'the more we can sell to foreign countries at a profit, the greater becomes the wealth of this country, because we are getting the other man's money.'[32] Many readers will insist that this time-honored doctrine concerning foreign trade is inconsistent with the doctrine which we have expounded. They are right. The two doctrines do not fit. Nor is there any way of making them fit.

This conflict of views we are glad to discuss, for it enables us to explain our theories in a new setting.

The facts about our foreign trade

To begin with, let us set down what appear to be the chief facts concerning our international trade: *First*, the foreign debtors of the United States cannot pay their debts to us except with goods; *second*, we have not made it possible for them to pay us with goods; *third*, by arranging new loans, we are constantly increasing their debts, without having any idea how they will be able to pay what they already owe.

But are those really the facts? Can it be possible that a nation which prides itself upon the soundness of its financial operations, is actually conducting business with the rest of the world as irrationally as that? Let us see.

To begin with, there is no doubt that the debts are large. The debts owed to the United States Government amount to more than eleven billion, and those owed to our citizens are nearly twelve billion more. On the other hand, foreigners hold investments and credits in this country which reduce the net amount of foreign debts owed to us to about twenty billion. Leaving the war debts out of consideration, there are at least eight billion dollars of net indebtedness to the people of the United States.[33]

These debts, moreover, are constantly becoming larger. The debts owed to American citizens increased from 8105 million at the end of 1923, to 9230 million at the end of 1924, and 10,405 million at the end of 1925, and 11,750 million at the end of 1926:

All these figures show that the United States is in a wholly new position. Formerly, it was a debtor nation; now it is a creditor nation. Formerly, it had the problem of finding ways to pay debts; now it has the problem of finding ways to receive payments.

How can these foreign debts be paid?

How can these billions of payments be made? Clearly enough, they cannot be paid in the currencies of the debtor countries. Marks, francs, lire, and all the rest cannot be used to pay debts in the United States until they are converted into something which will be accepted by the United States.

That makes the problem of paying external debts quite different from the problem of paying internal debts. If the German Government, for example, owes its citizens a million marks, it can collect a million marks in taxes, and pay its citizens directly with the very money it collects. But if the German Government owes money abroad, its surplus revenue in marks, no matter how large it may be, cannot be used to pay those foreign debts. So, also, no matter what funds a German citizen or corporation may have in marks, those funds count for naught as payment to a foreign creditor until they are converted into something which the creditor will accept.

That shows the absurdity of the attempt to make Germany pay the full cost of the war, or even the 133 billion gold marks which the Reparations Commission declared that Germany could and must pay. Indeed, when the Dawes commission got down to the practical problem of finding ways of getting payments across German borders,

the conclusion was reached that the utmost Germany could pay would be two and one half billion gold marks a year. That would not be enough to pay even half the interest on the 133 billions of bonds which at first were demanded of Germany. Provision has been made, moreover, for reducing even that amount, if no way can be found of converting the entire two and one half billion marks into anything which the creditor nations will accept. Unconverted marks they will not accept. The creditor nations of Germany have been forced to see what they did not see at the time of the reparations conference; but the United States does not yet see that the same difficulties are involved in the payment of foreign debts to the United States.

How, then, can these billions of foreign debts to the United States be paid? They cannot be paid with gold, for there is not enough gold in the world. Moreover, it would do us more harm than good to take what gold our debtors have; for, in the first place, they need to use their gold — and it is to our advantage that they should use it — for stabilizing their own currencies; and, in the second place, the gold we already have, which is about half the visible world-supply, is far more than we need at present, and as such, were it not for the wisdom of our Federal Reserve authorities, would be a menace to the stability of our own currency. So it is fortunate that payment in gold is impossible.

If not in foreign currencies or in gold, how, then, can these billions of debts be paid? Not in services, for the value of services to our tourists abroad each year, which is the only large debit item in the account, is not equal

to half the additional debts incurred in the same period. Nor can the debts be paid with the money which our immigrants and our charitable organizations send abroad, for that amount is even less than the balance on the tourist account. As a matter of fact, the total balance of 'invisible' items in our international account (including interest, dividends, and freights, as well as the items already mentioned), has not been half enough, in the past four years, to cover even the amount due us for the surplus of our exports over our imports, leaving nothing in the whole account to be applied to the payment of debts previously incurred. In short, the total transactions are such that our foreign debtors cannot reduce their total indebtedness a single dollar, by means of all the services and other 'invisible' items put together. It is hardly conceivable, moreover, that these items will expand sufficiently to provide any large part of the means of paying billions of debts.

One proposed way of receiving debt payments we have not yet considered, namely, the ownership of capital goods abroad. That, in Herbert Hoover's view, is all we can hope to get, in exchange for our surplus production. 'I believe,' he says, 'that we have to-day an equipment and a skill in production that yield us a surplus of commodities for export beyond any compensation we can usefully take by way of imported commodities. . . . There is only one remedy and that is by the systematic, permanent investment of our surplus production in reproductive works abroad.'[34]

What does that mean? It seems to mean that if we

work very hard, we can keep on sending abroad more wealth than we receive from abroad. Thus we can acquire more capital goods abroad — factories, mines, power plants, railroads — and thus possibly receive more interest and dividends, wherewith to acquire still more capital goods abroad, and so on, generation after generation, without finding any way whereby we, or our children, or our children's children, can benefit by the surplus which we have so laboriously produced.

Whatever may be said in favor of that kind of permanent investment of our surplus abroad, it cannot be said that it is a way of receiving debt payments; it is merely a way of postponing payments. It amounts to accepting one kind of paper as evidence of the debts, instead of another kind. It leaves still unsolved the problem of finding the means whereby foreign countries can pay those debts with something we can use at home.

The debts can be paid only with goods

So the question still remains: How can these debts be paid? And there remains but one answer. The debts can be paid only with commodities. That means that other countries must export to us more than they import from us. In other words, the debts cannot be paid unless, for many years, the United States has an 'unfavorable' balance of trade. Yet we shun such a condition as though it were the plague.

That aversion is easy to understand, for as a debtor nation we grew up with the sound idea that we could never get out of debt except by exporting more than we imported. And now, although we are no longer a debtor

nation, although we are, on the contrary, the chief creditor nation of the world, we still cling to the idea that an 'unfavorable' balance of trade is really unfavorable.

Formerly it was. An excess of exports was consistent with our position as a debtor nation: we were paying a large part of our debts with goods. But now that the position is reversed, we cannot collect our debts from other countries unless we make it possible for them to send to us, directly or indirectly, more than they receive from us. All this holds for private as well as public debts; for, as concerns our capacity to receive debt payments, whether in currencies, in gold, in services, or in commodities, the two kinds of debts do not differ essentially.

The expansion of foreign trade in the years to come, no matter how large, will not in itself solve the problem; for if conditions in the future remain essentially as in the past, an increase of our imports will be matched, in due course, by an increase of our exports, which will leave no surplus of imports wherewith foreign countries can pay their debts.

The confusion of thought on this subject is illustrated by our quotation from the *Bank Catechism:* 'The more we can sell to foreign countries at a profit, the greater becomes the wealth of this country, because we are getting the other man's money.'[32] The truth is that getting the other man's money does not increase the wealth of this country. Only the other man's services and commodities can help us: but we cannot get the full benefit from them unless, for many years to come, we have an 'unfavorable' balance of trade.

Each individual producer and banker, as a matter of

course, is striving to extend his own markets abroad. And as an individual, he does not have to be paid in foreign goods, in order to benefit from foreign trade. Naturally and properly, he uses international trade and finance for all that it is worth to him. That is as it should be. Nevertheless, the resulting permanent excess of exports over imports, far from being a gain to this country as a whole, is a loss of real wealth.

We are not accepting payment in goods

We are not enabling our foreign debtors to pay their debts with goods, for every year we export more than we import. In the year 1925, the value of our exports was nearly five billion dollars ($4,909,000,000), whereas the value of our imports was less than four and one quarter billion dollars ($4,228,000,000). Even if, from the total 'favorable' balance on merchandise we subtract the adverse balance on current invisible items, we find that our 'favorable' balance for 1925 (excluding gold and silver) is $323,000,000, or (if gold and silver are included) $491,000,000. In 1926, the excess of merchandise exports was $378,000,000, in spite of which the excess of gold imports was $98,000,000.

It is true that our merchandise export surplus declined from $981,000,000 in 1924 to $683,000,000 in 1925; but even that figure is nearly twice as large as that of 1923, and (excluding the War years) above the $583,000,000 average annual export surplus for 1896–1924. We should, however, make allowance for the changes in the price-level; the *percentage* excess of exports in 1925 and in 1926 was lower than before the War. Since 1914 our total

merchandise exports have exceeded our total merchandise imports by more than 22 billion dollars. (See Figure 25.)

It is said that European debts will be paid indirectly from Asia, South America, and Oceania, by an increase in imports by the United States of certain materials and foods, and directly by luxuries manufactured in Europe. What is the basis for this belief? It is certain that Euro-

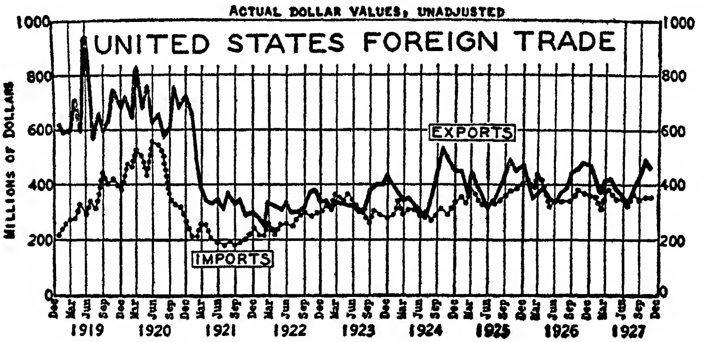


FIGURE 25. EXCESS OF EXPORTS OVER IMPORTS, 1919–27

(The statistics used in Figure 25 were compiled by the Bureau of Foreign and Domestic Commerce, and published in the *Commerce Yearbook* of the Department of Commerce)

pean debts cannot be paid by commodities as long as we send abroad more than we receive from abroad. That is a fact which we have naïvely refused to face. It is time that we met it squarely. We should either take measures which will enable our debtors to start paying their debts, or else have it understood that further loans are not business, but philanthropy.

It may be true, we are told, that these debts can never be paid; but they are, nevertheless, perfectly sound. That

seems to be a new principle of finance. Nobody thought that Sam Witham could do sound business for the Sandwich Center Bank by extending a new loan to a debtor who appeared to have little prospect of paying his old loan. Surely the principle does not change with the magnitude of the debt and the distance of the debtor.

Even so, it may be said, we can afford to lose a few billion dollars, if thereby we can gain the good will of the world. But can we gain it that way? Enabling people to run up debts which they cannot pay usually has the opposite effect. Any one who has lent a self-respecting man money under such conditions knows that, however grateful the man may be at the time, he soon becomes resentful. He never forgives his benefactor for doing him such a favor. If, on the other hand, any one lends money to a man, or sells him anything on credit, and at the same time establishes conditions under which he can prosper and pay his debts, the chances are that his gratitude will be lasting.

Now nations — which, after all, are only aggregates of human beings — have the same resentments and the same gratitudes. Does not the evidence grow, day by day, that the United States is incurring the ill will of some nations by putting them deeper and deeper into debt?

How much are we willing to sacrifice, in wealth and in the good will of the world, for the privilege of being the world's bankers? At least, we should not let the glamor of such a prospect blind us to the cost.

Why not accept goods in payment of debts?

The only way in which foreign nations can pay their debts is, as we have pointed out, by increasing their ex-

ports to us. After all, why should we not help them to pay their debts in that way? In the United States, every state accepts all the commodities it can get from other states; and everybody understands that the prosperity of the country as a whole is largely due to this freedom of interstate commerce.

Oregon, for example, borrows money from Massachusetts, and, as one means of paying her debt, ships lumber and apples to Massachusetts. These products are received, even though Massachusetts produces lumber and apples. If anybody should insist that it would be better never to be paid at all, than to be paid with lumber and apples, he would be called demented. Why, then, do these two states, in union with all the others, try to prevent foreign countries from paying their debts with commodities? Our own people certainly want more lace from Belgium, gloves from France, olive oil from Italy, and no end of other good things. They are real wealth. If we could receive debt payments by importing each year more of these goods than we are now importing, we should have that much more real wealth with which to increase real wages and achieve higher standards of living. Can there be any possible objection to that? As a matter of fact, there is vigorous objection. Even a few months of excess imports in 1926, after decades of excess exports, alarmed many people.

A boy who paid his tuition at college, and then tried to escape getting an education, was once compared by Professor Palmer to a customer who should pay for a pair of shoes and then, when the clerk was not looking, throw the package behind the counter and run out. 'Not a very

happy simile,' some people said, 'for surely there never was such a customer.' Perhaps not, in home markets. But in world markets, the United States is just such a customer to-day. It has made large payments to foreign countries, and is constantly paying more, while it refuses to take enough commodities to enable those countries to begin to pay their debts.

The real reason why it is more blessed to give than to receive

Is it true, then, that our refusal to accept goods from abroad in full payment of debts is as devoid of reason as the orthodox argument of the free traders makes it out to be? Not at all. Under present conditions, there is a valid reason why the people, as a whole, wish to prevent a large increase of imports. That reason — which is the central theme of our entire discussion — is the fear that the people will not have enough money to buy even their own products, and that the addition to home markets of more products from abroad will cause a slump in prices, unemployment, business failures, and all the other ills that industrial depression is heir to.

In the United States, that fear is evidently well grounded; for, even though we have exported more goods than we have imported, and even though we have distributed to consumers on the instalment plan at least three billion dollars' worth of goods in excess of what they have paid for, yet consumer buying has not been enough in recent years to sustain the price-level of the goods we have actually turned out and kept at home. And it has been far, far short of enough to induce capacity production.

The main reasons for this deficiency in consumer buy-

ing, we explained in our discussion of 'The Dilemma of Thrift.' There we pointed out the fact that industry, in the process of producing a given volume of goods, does not turn over to consumers enough money to buy those goods; and the further fact that consumers, under the necessity of saving, cannot spend even as much as they receive. Since, therefore, consumers do not receive enough income to buy home products, an excess of imports over exports actually would make the situation worse in home markets. There is at times a 'surplus' output, in the sense that consumers at home do not have enough income to buy all that they retain for home use, in addition to the full equivalent from abroad of all that they export. That creates a problem which must be dealt with, under free trade as well as under protection.

Lacking home buyers, business seeks foreign buyers

Business seeks a foreign buyer partly because there is no home buyer, just as business seeks an instalment buyer partly because there is no cash buyer. Our foreign selling, like our instalment selling, is a means of moving into consumers' hands at once goods for which they are unable to pay. Building automobiles in this country, shipping them to Europe, and lending Europe the money wherewith to pay for them, is in some respects like selling automobiles at home on the instalment plan. But instalment selling at home and foreign selling are unlike in two important respects: First, instalment selling, as long as it grows at a sufficient rate, induces an increased flow of money to consumers at home which enables them to pay, according to contract, for nearly all the goods which they buy; second,

the device of selling on partial payments enables *our own people* to acquire and enjoy the goods. Instalment selling at home, therefore, though it is opposed by many of our leaders in business and in finance, is in some respects on a sounder basis than our foreign trade, the extension of which these same leaders are constantly urging.

Here, perhaps, we should pause to emphasize the fact that we are speaking of a surplus of goods *in general* beyond the buying power of consumers *in general*. That has nothing to do with the 'surplus' which a country may have of a given commodity — wool, for example, in Australia — in the sense that the people of that country would rather import an equal value of other goods in exchange for that 'surplus,' than to consume the 'surplus.' That is precisely the kind of exchange that is the basis of the wholesome trade between Oregon and Massachusetts.

Free trade and the problem of consumer income

The fact that consumers at home do not receive enough income, in addition to their savings, to buy all the goods that are retained for home use and the full equivalent of all that are exported is, as we have said, a valid reason for trying to maintain a 'favorable balance of trade.' And it is the only valid reason. Oddly enough, it is never the reason which is urged.

But there would be no sense in asking our own people to be satisfied permanently with consuming less than they produce, if any way could be found of enabling them to buy as much as they produce. In other words, the only logical reason for sending abroad, year after year, more wealth than we receive from abroad, is that we do not

yet know how to distribute among ourselves as much wealth as we are entitled to. And that reason will lose its logic as soon as we find out how to give our own people adequate purchasing power.

Even under present conditions, the position is not a logical one for the world as a whole. Any one nation, it is true, may partly offset the lack of purchasing power at home by exporting its surplus products — by sending abroad more than it receives from abroad. That device, however, can relieve the trouble in one country only by making it worse in others. It is as certain as arithmetic can be, that the practice among the nations of sending their surplus products to each other does not lessen by a single dollar the world deficiency of consumer purchasing power. Forty-eight States, carrying on all the internal trade of this country, can see that point easily enough. They know that it is impossible for each of them to sell to the others more than it buys from the others. But forty-eight nations, carrying on virtually all the international trade of the world, cannot see that it is equally impossible for each one of them to sell more than it buys — just as impossible as it is to gain endless profits in the fur business by feeding the cats to the rats and the rats to the cats.

So, by protective tariffs, each nation tries to keep out foreign products, tries to maintain 'favorable' trade balances, tries thus to overcome the blighting effect upon its own markets of underconsumption at home. Meantime, the combined efforts of all the nations of the world to hinder foreign trade do not, by one single yard of cloth, increase the buying power of the consumers of the world.

Tariffs do not solve the problem. By juggling tariff schedules, it is true, one nation may gain a temporary advantage over another in this futile game of making ten minus one equal ten, in this struggle to prevent underconsumption at home. Thus any one nation may, in effect, export some of its unemployment.

Its own trade barriers, however, incite other countries to erect higher barriers; and this kind of rivalry — now rife throughout Europe — not only chokes industrial prosperity, but engenders a similar vicious spiral of competition in armaments, and is one of the basic causes of war. 'Everywhere in Europe,' says Mr. Walter Leaf, President of the International Chamber of Commerce, 'everywhere, with hardly an exception, there are the same complaints of the difficulty of finding markets for manufacturers. The capacity for production is there, and is generally much larger than in pre-War times; but the products are stagnating because they are refused, or at least hampered by foreign tariffs and trade barriers. Hence unemployment, stagnation of industry, and a lamentable waste of potential human energy. The whole standard of living is lowered by the artificial restrictions on human efficacy.'

Conclusion

So we conclude our discussion of foreign trade, as we have concluded our discussion of other topics:

There is only one permanent solution of the problem, and that is to enable the people of the United States to consume as much as they produce of consumers' goods, or the full equivalent in the products of other countries. All other means are only temporary expedients. The right flow of money to

consumers will remain the chief need whether or not it is modified by changes in tariff schedules.

Any one who does not accept that conclusion may well be an out-and-out free-trader. He may start, as many economists have started in the past, and as many of those who reject our theory start to-day, with the false premise that the production of goods automatically yields consumers enough money to buy the goods. From that premise, he may conclude that no nation has any sound reason whatever for obstructing a free and even exchange of goods with all other nations. That appears to be the reason why academic students, as a rule, are free-traders. Most business men, on the other hand, are protectionists, for their contact with real markets shows them that business prosperity always ends in general overproduction. For some reason, which they have never clearly understood, they find goods piling up in the markets faster than consumers take them away. Naturally, they seek to keep foreign goods from crowding into markets which are already overcrowded, or in danger of becoming overcrowded. They see no point in receiving more wealth from abroad, if the net result is a period of business depression at home, during which the country loses more wealth through the curtailment of production at home, than is gained in goods from abroad. In these views on foreign trade, business men have been nearer the truth than some of the economists. The almost universal distrust which business men have for traditional economic theory has not been without reason. Under conditions as they are, there are grounds for objecting to free trade.

Conditions as they are, however, are manifestly absurd, for they prevent us from receiving, in exchange for the exports which we have worked hard to produce, a full return in imports which we very much desire. Conditions as they should be would enable us to buy all the goods that are due us from abroad in payment of debts, in addition to all the domestic goods that are retained for home consumption. By maintaining such conditions, we should make it possible to enjoy in the future the full benefits of our productive labors. More than that, we should, in effect, make it possible to consume in the future the 'surplus' which we have produced in the past, but which, for lack of purchasing power, we have not yet been able fully to enjoy.

Until measures are taken to achieve that end, the struggles of the nations to find adequate markets for their 'surplus' products must be largely futile and a continuing cause of war. Fortunately, as we hope to show in a forthcoming book, it is readily possible to put the necessary measures into effect. All the essential factors are within our control. The net result will be more satisfactory relations with foreign countries, less danger of war over markets, a stimulus to industry abroad, a sounder market in this country for foreign securities, a fairly stable currency, sustained prosperity, and higher standards of living.

Let us, in conclusion, guard our position against one misunderstanding. We do not oppose export trade and foreign loans. On the contrary, we favor increasing both our exports and our loans. We seek to aid the efforts of those who, under an unnecessary hindrance, are now doing excellent work in preparing us to take advantage of

external markets. All we insist on is the necessity of establishing conditions under which we can extend our international business on a business basis. That position is neither provincial nor short-sighted; nor is it selfish. It is best, in the long run, for our debtors as well as for ourselves.

CHAPTER IX

STABILIZING THE BUYER'S DOLLAR

HOW IS IT POSSIBLE WITHOUT ENOUGH BUYERS?

FORTUNATELY, Congress has voted to extend the charter of the Federal Reserve System. No other question on which Congress has acted in the past few years appears to have so much to do with general economic welfare. It would be easy to substitute a monetary system that would cause a greater loss to this country than the total income of all our millionaires — a greater loss, even, than all the money Europe owes us. Several such systems have, indeed, been proposed by members of Congress.

Certain of these systems would so reduce production and real wages as to sacrifice all the gains of the past two generations in standards of living. For money is the blood of commerce; unless it flows through the right arteries at the right rate, the body politic cannot function as it should. No wonder, then, that the hearings on the Strong Bill have brought before the Committee on Banking and Currency of the House of Representatives many of our foremost bankers and economists. No wonder that widespread public interest is aroused. For, although the Strong Bill [35] merely directs the Federal Reserve Board to use its powers 'for promoting stability in the price-level,' it is plain that the discussions of the bill bear directly on the larger question of continuing the Federal Reserve System itself.

What the Strong Bill really tells the Reserve Board to

do is to try to keep prices in general from going either up or down. That means, presumably, stabilizing a composite of prices, such as the one represented by the wholesale commodity price index of the Bureau of Labor Statistics, which is a weighted average of the prices of more than four hundred raw and manufactured articles.

Under the proposed law, each of these four hundred articles, and every other article from chewing gum to ocean liners, is left alone, to find its relative price-position among the others as best it can. The bill does not seek to prevent such changes in the price of potatoes, for example, as result from changes in supply or changes in demand; but only such changes in the price of potatoes as result from changes in the price-level of goods in general; that is to say, changes in the purchasing power of the dollar. The aim is, in other words, to regulate monetary conditions so that if the prices of some things go up, the prices of other things will go down far enough to make a dollar worth just as much as ever.

So the Strong Bill closely concerns every one who saves money; indeed, every one who spends money. And that, it must be admitted, includes a great many of us. By 'money' we mean bank credit as well as currency, since a check for one dollar, drawn on a bank and used as purchasing power, has the same effect on prices and on business as a silver dollar, or a dollar bill, used in the same way.

Everybody knows that unstable money is an evil

Whether Congress should direct the Federal Reserve Board to attempt to stabilize the purchasing power of

money is an open question; but whether stable money is desirable is no question at all. Inflation — by which we mean an increase in the volume of money, accompanied by a rising price-level — is an unmitigated evil; and deflation — the reverse process, which inevitably follows — is even worse. Both are bad for business, bad for the people everywhere, a cause of unemployment, unjust, confusing, and economically and socially demoralizing. All that is beyond argument.

The evils of unstable money, moreover, are now almost universally understood. The world was dramatically and painfully educated on this subject while the printing-press fiascos of Central Europe emulated the excesses and absurdities of a comic opera. Everybody now sees that inflation makes a mockery of thrift. When it takes five million marks to buy what one mark would buy a few years before, a millionaire has to spend his entire savings for one loaf of bread. Meanwhile, the savings of most widows, teachers, and clerks — in fact, of nearly everybody — cannot buy any bread at all. Even the comparatively slight changes in the value of the United States dollar, as shown in Figure 26, have caused great injustice and suffering. Most of us know that from experience.[36]

We have all learned, at last, that it makes hardly any difference where the price-level happens to be, so long as it stays about where it is. Whether prices are high or low matters little. With prices twice as high, people can buy just as much as ever, provided wages and other income are twice as high. And business can proceed just as well on one price-level as on another, once prices have become

stabilized on that level, just as a ship can sail as serenely and swiftly on Lake Superior as on the lower level of Lake Huron, once the ship has passed through the locks. Every-

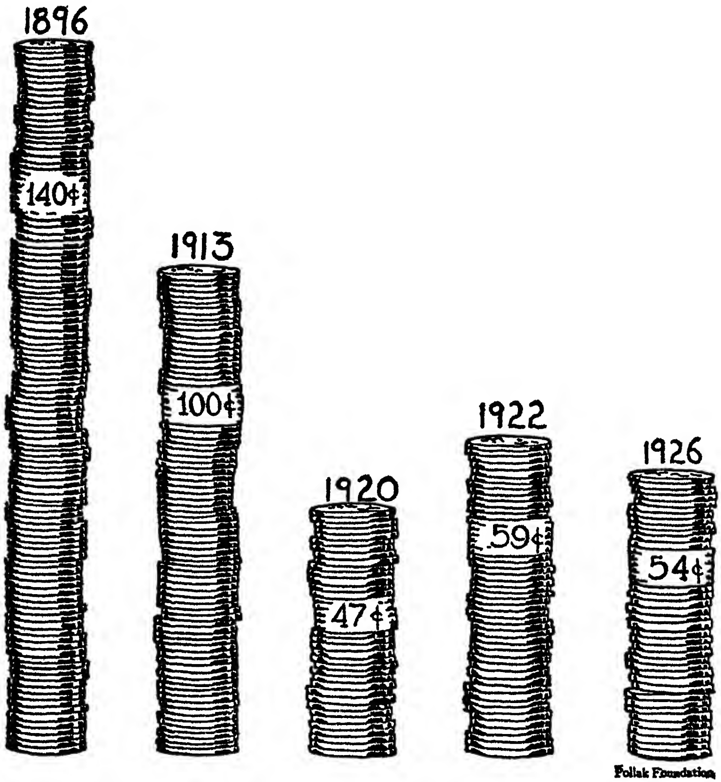


FIGURE 26. CHANGES IN THE PURCHASING POWER OF THE DOLLAR 1896–1926

(Index used in computing is that of the Federal Reserve Bank of New York)

body now sees that it is the process of changing levels and the frequency of the change that retard progress.

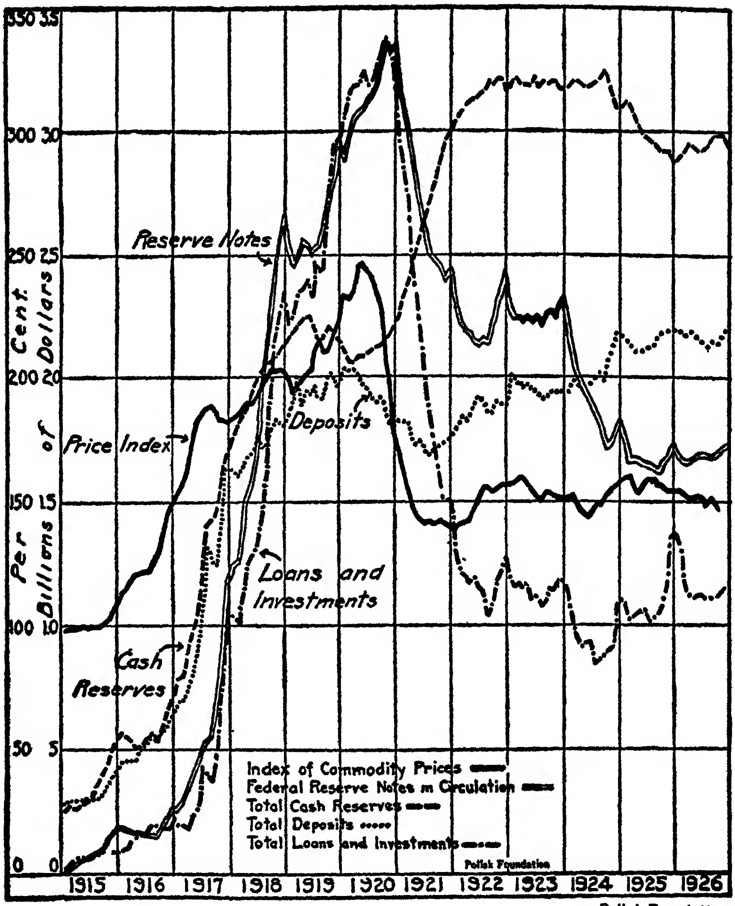
Another fact which is beyond argument is that the

Federal Reserve System not only can, but to some extent actually does, influence the price-level. It does this chiefly by means of its interest rates and its purchase and sale of securities in the open market. But it also influences the price-level by its published statements, for they inevitably affect both the eagerness of banks to lend money and the eagerness of men to borrow money. There never has been a time, and there never will be a time, when the steps taken by the Reserve System have nothing to do with price movements. Failure to act in itself affects prices. The Federal Reserve Board and the Reserve Banks either promote stability or promote instability. From that conclusion, there is no escape.

The question at issue, then, is not whether it is desirable to prevent such fluctuations in the general price-level as are preventable; and the question is not whether the Federal Reserve System shall influence the price-level. The sole question raised by the Strong Bill is whether Congress should direct the Reserve System to use for that purpose such powers as it already has.

The Federal Reserve System has helped to stabilize the price-level

As a matter of fact, the Federal Reserve System actually has used its powers in such a way as to assist in preventing violent changes in the level of prices. Indeed, many advocates of the proposed law declare that they will be satisfied if the Reserve System, acting under that law, does in the future as much to bring about stable money as, without any such Congressional mandate, it has actually done in the past. The opponents of the



Pollak Foundation

FIGURE 27. PRICE-LEVEL IN RELATION TO BANK LOANS AND DEPOSITS 1915–26
(Index of commodity prices is that of the United States Bureau of Labor Statistics)

Strong Bill overstate their case when they liken the bill to a law instructing the Weather Bureau to eliminate rain on Sundays. The Weather Bureau cannot influence the

clouds; the Federal Reserve System *can* influence the price-level.

What the Reserve System has done is evident from the comparatively level course of the wholesale price-line during the years 1922–26, as shown in Figure 27. In contrast, the other lines shoot up and down like roller-coasters. The volume of Federal Reserve notes, for example, has been far from stable; and the same is true of the holdings of Government securities and the total assets of the Federal Reserve System. Rediscount rates, also, have had their ups and downs. Now, the fact that all these lines are crooked has had much to do with keeping straight the only line in this chart which there is any need of keeping straight — the general price-line.

The whole picture looks very complicated. It is. That is precisely why we are calling attention to it. It gives some idea of what an intricate and difficult task the Federal Reserve authorities are performing, and what folly it would be for any one who does not understand that task to try to tell them how to accomplish it. Their actual record is remarkable. This movement of the index line of wholesale commodity prices across the years 1922 to 1926 could not possibly have been so nearly straight and so nearly horizontal, had not the policies of the Reserve System been skillfully devised to help curb extreme movements in either direction.

How the Reserve Banks helped in 1923

Let us illustrate that point with a concrete example. During the twelve months prior to the early spring of 1922, prices, production, trade, and employment fluctuated less

than in any other twelve months since the tragic summer of 1914. Business as a whole was remarkably steady. But during the next twelve months, it was not.

In fact, all the principal indexes of business activity shot upward at an alarming rate. Wholesale prices rose from an index number of 143 to 159, and employment from an index number of 78 to 96. Moreover, in a single month (February to March, 1923) the volume of manufactures rose about seven per cent, and reached the highest point in three years. In March, also, the volume of building permits reached a new high peak; and the production of pig-iron — long a favorite index of business conditions — which had been only one third of normal in the summer of 1921, went to sixteen per cent above normal.

These figures reveal the rapid progress of business toward conditions under which further increases in the volume of currency and bank credit would be accompanied by still higher prices, but not by substantial increases in employment or in production. Furthermore, business as a whole was rapidly reaching the point where the selling of the increased stocks to consumers at the higher prices would be impossible. If the advance had continued at this rate for another twelve months, there would have been a cry of 'overproduction.' Business would have enjoyed a major boom, and soon thereafter would have suffered a major depression; in fact, all the evils that inevitably follow monetary inflation.

But the inflationary movement did not continue. Neither was there a serious depression. The net result of all the forces that were brought to bear was a year of

good business. Freight-car loadings broke all records; the physical volume of trade was nine per cent above normal; employment, wages, and profits were well sustained.

Now the point is that this was achieved without plunging the country into a debauch of inflation. The dollar did not fly to perdition along the road already taken by the ruble and the mark. On the contrary, the general price indexes during the last three quarters of 1923 moved within a narrow range. The chief monetary factors were also remarkably stable; there was little change in the volume of Federal Reserve notes, or loans and investments, or deposits, or reserves. All these facts are shown in Figure 27.

Now, why did not the rapid rise in prices in the first quarter of 1923, like the similar movement a few years earlier, carry the country forward to a boom, a collapse, and a depression? Did the Federal Reserve System use its powers at this time 'for promoting stability in the price-level'?

One thing, at least, is certain: the restraining influence was not the gold reserve ratio. There was enough gold on hand to carry the price-level twice as high as it actually went, if all the gold had been used for that purpose. (See Figure 28.) It is equally certain that the inflationary movement of 1923 was not stopped by conditions in Europe, or foreign trade, or 'the law of supply and demand,' or a consumers' strike against high prices.

In point of fact, the Federal Reserve System did use its powers in 1923 to help prevent extreme inflation. In February and March, the Reserve Banks of New York, Boston, and San Francisco raised their rates. Commercial

banks also put up their rates. These advances were followed promptly by a curbing of the upward movements of prices and production. The higher rates certainly had

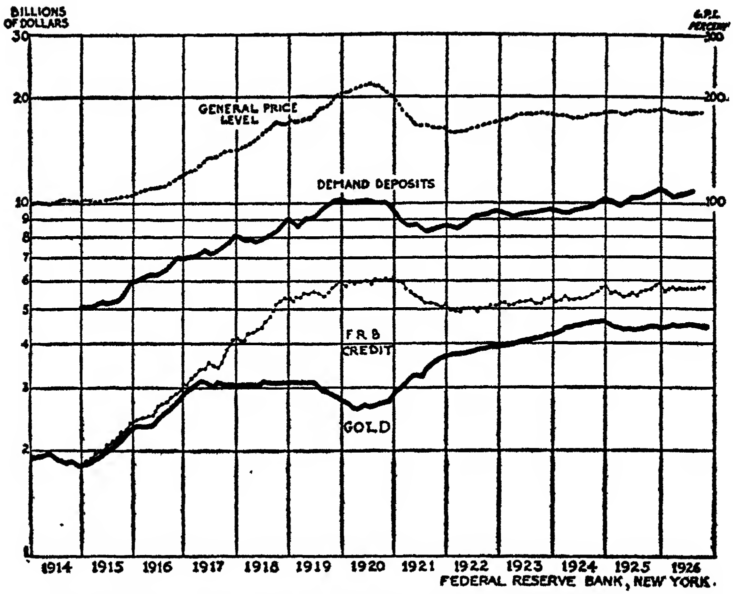


FIGURE 28. GENERAL PRICE-LEVEL IN RELATION TO GOLD AND BANK CREDIT, 1914–26

something to do with promoting stability in the price-level; for, by discouraging borrowing, they helped to check the expansion of money in circulation. The higher rates discouraged borrowing, not mainly because business men refuse to pay an additional one half of one per cent for money they really want to borrow, but because they are not so eager to borrow when rising interest rates suggest that business is expanding too rapidly.

The open-market purchases and sales of securities by

the Federal Reserve Banks also helped. Early in January, 1923, the banks held open-market acceptances and United States securities to the value of 734 million dollars. These they reduced steadily during the period of inflation until July, when the total holdings were below 300 million dollars. In other words, the banks sold securities to the value of more than 400 million dollars, and thus, for the time being, removed that amount of credit from the open market. These sales of securities influenced credit in such a way as to make the increases in discount rates effective. Between October 17th and the end of the year, on the contrary, the banks increased their holdings to 473 million dollars.

Thus, early in the year, when the price-level was rising, operations of the Reserve Banks helped to check inflation. Later in the year, when the price-level and the volume of production were falling, the Reserve Banks, by buying securities, helped to put more credit into the market, and thus helped to curb deflation and to sustain business.'

Clearly, then, the rediscount policies and open-market policies of the Reserve Banks in 1923 were effective aids to other forces in preventing excessive fluctuations of the price-level. These events, which illustrate concretely what the Reserve System has since been doing and is still doing, give some idea how it happens that the whole country has been spared the agonies of extreme inflation and deflation. That the Reserve System has been using its powers in the interest of a stable price-level is evident to any one who can see that a race-track is fairly level and that a roller-coaster is not.

In short, the Reserve System has actually been doing,

with notable success, and for several years, in so far as conditions permit, all that the proposed amendment to the Federal Reserve Act hopes to accomplish.[37]

It is easy enough to look back, now that everybody knows what has happened, and say, 'This change in the rate came too late,' and 'At such and such a time, more securities should have been bought.' It appears, however, in view of the complexity and obscurity of the problem at any given time, that the Federal Reserve System has used its powers toward promoting stability in the commodity price-level about as effectively as is humanly possible.

What is more, the Reserve System has done its part to make the years 1922–26 a period of extraordinary business prosperity. Not merely prosperity as shown by indexes of business activity, or stock markets, or real estate speculation, or other things that the people generally cannot understand or enjoy. The prosperity has been as real and easy to understand as a baked potato. It has not been illusory, as it is when gains in wages do not keep pace with the rising prices of the things that wage-earners buy. (See Figure 1, page 12.) On the contrary, *real wages* — by which is meant the goods that wages will buy — have increased, in the years during which the Reserve System has been in operation, about twice as much as in the previous quarter-century. According to the extensive study by Paul H. Douglas, the annual real earnings of employed workers in American industries rose only nine per cent from 1890 to 1919, but about eighteen per cent in the next five years.[38]

There is no doubt that the people are better off than

they ever were under the old banking system; and there is no doubt that the Reserve System has been an important factor in that advance. Such general prosperity, achieved without the treacherous stimulus of inflation, is all that could be expected of the Reserve System, and far more than most people dared to expect a few years ago.

Better not interfere with successful executives

In view of this unquestioned success, it is sound business policy to leave the Federal Reserve authorities alone. At least, that is what a wise board of directors always does when it is fortunate enough to have a chief executive who is getting results. And it is what the chief executive himself does with a department head, as soon as he finds one who is competent. As a matter of fact, nearly every great achievement is the outcome of the work of experts who are given adequate authority, held strictly responsible for results, and then left alone. Many a failure of experts, on the other hand, is due to interference on the part of those who do not know enough to tell the experts how to do their work.

A few years ago, when the Reports of the Federal Reserve Board and of the Reserve Banks gave no indication of any definite policy regarding the preservation of a stable price-level, and when the country was just beginning to recover from the severe deflation of 1920–21, we thought it would be well to direct the Reserve System to do what it could toward preventing a recurrence of such a disaster. Almost anything that might happen seemed preferable to that. But now, in view of the subsequent Reports and achievements of the System, and the clear and frank testi-

mony of Reserve authorities before the Committee on Banking and Currency, we think no amendment should be passed unless, in the judgment of those who are now responsible for administering the System, such an amendment would be helpful.

All the present situation seems to call for is a vote of confidence in the Federal Reserve authorities. The extension of the Federal Reserve charter, just as it is, would serve that purpose. There is danger that an amendment to the Federal Reserve Act at this time, even with a laudable purpose, would be taken, in some quarters, as an adverse criticism of the Reserve Board and the Reserve Banks. That would be unfortunate, for it would play into the hands of those who have found fault with the Board and the Banks, through sheer ignorance of what they are doing and what they can possibly do with their present powers.

Many people, for example, object because the Reserve System has not stabilized the price of wheat. Others object because it has allowed interest rates to go up when cotton prices appeared to be going down. Still others condemn the System for providing so much money for stock speculation when there is not enough money to sustain commodity prices.

Not long ago, there was a case in point. Grain and cotton prices were falling, while speculation in stocks was active. There was a widespread belief that grain and cotton prices were weak *because* so much money was used in the security markets, and that the Reserve System was somehow to blame. The critics of the System did not understand that grain and cotton prices are made chiefly

in world markets, regardless of what happens on the New York Stock Exchange. Nor were these critics aware of the fact that the Reserve System has no power to put money into circulation so that it will be used to lift commodity prices and will not be used to lift stock prices.

There is reason to fear, therefore, that if Congress directed the Reserve Board to use its powers to stabilize the price-level, many people would expect the Board to stabilize the price of hogs, copper, and potatoes. Some would even find fault with the Board for not pegging the prices of tenpenny nails and theater tickets. Certainly, when the price of a given commodity fell far below expectations — and that is sure to happen under any monetary system — there would be an outcry by the producers of that commodity, not to mention the very speculators who helped to cause the trouble.

Such complaints would be made because the distinction between stabilizing the price-level and stabilizing individual prices is too subtle for most persons to grasp. Once the Reserve System is directed to use its powers to prevent a slump in commodity prices in general, there is danger that increased pressure will be brought to bear, first by one group and then by another, to induce the Reserve authorities to prevent a slump in the price of some particular commodity, regardless of the trend of prices as a whole. If, however, the authorities yielded to such pressure, the very purpose of the Strong amendment might be defeated.

It is true that the discussion of the subject, caused in part by the bill itself, is helping to educate the public regarding the powers and functions of the Reserve System.

Thus the people are learning about the achievements of that System, during the past few years, in helping to prevent inflation and deflation. Meanwhile, index numbers of prices — scarcely mentioned a generation ago in Congress or in the newspapers — are coming into ordinary daily use. There is, therefore, a prospect that the time may come when the purpose of a bill for preventing extreme fluctuations in the price-level will be generally understood.

It would not be generally understood to-day. Already the Strong Bill is confused in many minds with the efforts that are made, over and over again, to get Congress to control the price of bread, or guarantee the price of wheat, or 'prevent profiteering in gasoline,' or fix interest rates. Many people cannot see that the Strong Bill has nothing to do with such projects — nothing to do with Government regulation of *individual* prices.[39]

Some favor the bill because they think it will prevent a slump in the price of potatoes; others favor it because they think it will prevent sky-rocketing in the price of potatoes. Both sides are mistaken, because they fail to distinguish sharply between the attempt to prevent changes in the price of a given commodity and the attempt to prevent changes in the *general level* of commodity prices.

The Federal Reserve System cannot permanently stabilize the price-level

A still graver danger is that the people will assume that because the Federal Reserve Board is directed to use its power to promote stability of prices, the Board actually has the power to keep prices on a dead level. As a matter

of fact, some of the most ardent advocates of the Strong Bill are mistaken on this very point. They assume that the Reserve System has power to control the gross volume of money in circulation. It has not. They assume, further, that the System, by controlling the gross volume of money in circulation, could keep commodity prices stable. It could not. Unless the Reserve Banks were aided by important influences over which they have no control, the utmost they could do at times would not be enough to prevent either inflation or deflation.

There are times when they could not accomplish that purpose. In 1915, for example, the member banks had so much money that they could promote inflation without calling on the Reserve Banks for help. Under such conditions, putting up rediscount rates does not stop the rise in prices. And in 1920, after the price-level had been driven to disastrous heights, partly because of the mistaken policy of the Treasury Department in keeping down interest rates, the Reserve System could not prevent deflation. Reducing rediscount rates to nothing would not have prevented deflation.

There are other times, such as the year 1923, when the leadership of the Reserve System in the right direction is all that is necessary. The time is sure to come, however, when the utmost the Reserve Board and the Reserve Banks can do, in reducing rates and buying securities and advising member banks and the business world in general, will not cause enough money to be spent for goods to sustain the price-level. That fact should be generally understood. Otherwise, the first time there is a considerable slump in prices, the Reserve System will be blamed.

Such unmerited blame will be bad for the System; and — what is worse — bad for business generally; and — what is worse still — bad for all of us, since our material welfare depends largely on the prosperity of business. Such an outcry, prompted by ignorance, might easily lead to changes in our monetary system which would wipe out the gains in general economic welfare which we have unquestionably made in recent years under the Federal Reserve System.

Permanent stability of the price-level is not attainable under the present Federal Reserve System

In explaining why the Federal Reserve System under the existing law cannot permanently stabilize the price-level, we come to the most important aspect of the whole subject.

The gist of the matter is this: Under our present system of financing production and distribution, the time inevitably comes when the flow of finished products into the markets far exceeds the flow of money into consumers' hands. The people simply do not receive enough money to buy the output of industry at current prices.[40] When that time comes, there is nothing the Reserve System can do which will make up the deficit of consumer purchasing power, for the System has no control over the way in which non-member banks, or even member banks, use credit.

When that time comes, therefore, the only way the surplus stocks can be moved is by a fall in the price-level. Consequently, the price-level falls. The stocks are then moved at lower prices, and business gradually gets under way again.

To attempt to fix prices where they are, at such a time, would be like fastening down the safety-valve of a boiler and piling on coal. At present, when business gets under full steam, dropping the price-level is like opening a safety-valve. Why that is so, we cannot explain fully without reviewing again — even at the risk of losing our readers — the main phases of the Dilemma of Thrift.

We have already shown how it happens that, as the volume of production expands, the income of consumers does not expand proportionately. There is, therefore, a deficit of consumer buying. The discouraging result, which is usually called 'overproduction,' might better be called 'underconsumption.' Whatever it is called, it is due principally to two causes: first, the fact that industry does not pay out to consumers enough money to enable them to buy the increased output; second, the fact that consumers, under the necessity of saving, cannot spend even as much money as they receive from industry. And they have no other source of income.

To be sure, as the volume of production increases, the volume of money in circulation also increases. But this increase does not make up the deficit of *consumer* income; for the expansion of money — mainly through bank loans — is largely on the *producer* side. It is easy enough for a shoe manufacturer to borrow money at the bank wherewith to produce more shoes; but the bank officers would think a man demented if he tried to borrow five dollars to enable him to buy a pair of shoes for his own use.

That is to say, bank credit is expanded mainly to enable industry to increase its output. Naturally, however, producers do not borrow and pay out as costs as much money

as they expect to get from consumers for their increased product; as much money as they *must* get if they are to continue to borrow money and pay it out in sufficient quantities to sustain the level of prices.

To accept that view is to remove one of the foundation stones, and unsettle much of the superstructure, of traditional economic theory. The established teaching is that the production of goods *automatically* creates an adequate demand for goods. Thus, it is said, the money disbursed in putting a dollar watch in the hardware shop, yields consumers a dollar wherewith to buy the watch. In short, 'production itself furnishes the means of purchase.'. But that theory is contrary to fact.

What actually happens, as we have pointed out, is that the money distributed to consumers in connection with a given output of goods is ordinarily less than the sales prices of the goods, and must be less if the goods are sold at a profit. Clearly, then, the more rapidly money is increased for use in *current* production of consumers' goods, the more rapidly the deficit of consumer purchasing power is increased, *unless the effect in question is counteracted in some way.* The effect cannot be counteracted merely by using *more* money in the process of putting *more* goods on the market. The effect now and then is counteracted for a limited time, by an increase of money in circulation, when enough of that money is used in constructing public works or in developing productive facilities which are to be used in a *subsequent* period of time. The effect in question can also be counteracted by a production of gold of precisely the right volume. Such sources of consumer income, however, are usually too

large or too small. The balance is far from being automatic. Under present conditions, therefore, the time is certain to come when nothing but a fall in the price-level will enable industry to sell an enlarged output.

Conclusion

Under these conditions, therefore, no action of the Reserve Banks in lowering money rates and purchasing securities and advising business men and bankers can long prevent a fall in the price-level. For, even if the Board could control the volume of currency and bank credit, and even if foreign trade and world prices did not complicate matters, it would be impossible to stabilize the price-level merely by thus regulating the *gross* volume of money in circulation, regardless of how the money is used.

In order to keep the price-level from extreme fluctuations, it would be necessary for the Reserve System to regulate the amount of money which was issued on the *consumption* side and the amount which was issued on the *production* side, as well as the amount saved by individuals and the amount saved by corporations. In short, it would have to control the *uses* of bank credit. For movements of the price-level are largely due to the relation between the amount of money which is used in making goods and the amount which is used by consumers in buying goods; which relation is itself constantly modified by individual and corporate savings. The Reserve System has no power to control these factors.

There is, therefore, as Governor Harding says, no way in which Congressional laws or the rulings of a board can

prevent changes in the price-level, except in so far as such laws or rulings 'may be able to promote better marketing methods, or to encourage a more scientific adjustment of production to consumption.'

That basic condition is generally overlooked by the advocates of price-stabilization bills. They assume that it is possible to achieve their purpose merely by putting money into circulation and taking money out of circulation, regardless of what the money does. They seem to think that they can stabilize the price-level by controlling currency and credit issues, no matter what effect the money in question has on the relation between the flow of goods and the flow of incomes. They fail to see the crucial distinction between new money which goes into circulation on the consumer side and new money which goes into circulation on the producer side; new money, for example, which is first used to buy shoes already made, and new money which is first used to make more shoes. They fail, therefore, to see that an increase in the volume of money, when individual incomes are deficient, usually results in producing consumers' goods faster than consumers' income, with the result that the remedy aggravates the malady. Incomes become still more inadequate than before, and prices have to fall.

For the same reason, the time is likely to come when the Federal Reserve System cannot curb a *rise* in commodity prices, merely by using such means as it commands for withdrawing money from circulation; for these means may be powerless to reduce the amount of money which is spent by consumers for commodities.

That is why all the proposed plans for stabilizing the

price-level, as they stand, seem to us inadequate. These plans do not take into account some of the most important complications of the subject. Without better measurements than we now have of certain factors, nobody can tell just what measures to take in order to raise or depress the level of commodity prices. Even the two factors of paramount importance have not yet been measured with sufficient accuracy; namely, the flow of money into consumers' pockets, and the flow of goods into consumers' markets. Indeed, there is no dependable index of the retail price-level of consumers' goods; and that is the one price-level which should be our primary concern, since the distribution of goods to consumers is the end and aim of the entire economic system, the force which actually regulates production and employment.

Sometime, before long, we ought to know much more about all these crucial factors. Sometime, on the basis of such knowledge, we may be able to regulate not merely the *gross* volume of money, but the flow of money through various channels, including world channels, in such a way as to achieve approximate stability of the commodity price-level without damming up the flow of commodities, and thus doing more harm than good.

Meantime, the part of wisdom seems to be to leave our chosen experts alone, to carry on the work which they have been doing so exceedingly well. But we should not for a moment forget that the Federal Reserve System, while an exceedingly efficient agency for financing production, does not and cannot solve the problem of financing consumption.

CHAPTER X

HENRY FORD'S POLICIES

CAN HIGH WAGES, LOW PRICES, AND MASS PRODUCTION SOLVE THE PROBLEM?

In 1914, Henry Ford made the startling announcement that he would henceforth pay a minimum wage of five dollars for an eight-hour day. Since that time, the world has moved so rapidly that it is difficult to remember with what predictions of disaster the news was received. In 1926, he astonished the world again with his announcement of a five-day week. The key to sustained prosperity, he insists, is high wages, low prices, and mass production — with plenty of leisure thrown in. It is not involuntary leisure that he advocates; yet now and then, because he cannot sell nearly as many cars as he can make, he shuts down some of his plants and throws an army out of work. We may well ask, How far can the Ford policies go toward keeping the country prosperous?

These policies, startling enough in themselves, are much more so when adopted by the most conspicuous genius in the industrial world, the most successful business man of our time. No other individual ever made so large a fortune solely by rendering service — by doing more than holding natural resources and watching them grow in value. Indeed, since the evidence of his service to mankind is rolling along on every highway, the people nowhere seem to resent the fact that he has taken from them, in prices, hundreds of millions of dollars more than

he has paid them in wages. And even the Fundamentalists have not denounced him for his new commandment: 'Five days shalt thou labor and do all thy work.'

'Malefactors of great wealth,' Roosevelt called some of the multimillionaires; Henry Ford, alone among those in the topmost bracket, is popularly acclaimed as a benefactor of great wealth. And that, even though he has been no benefactor at all, in the usual sense of giving away money for philanthropy.

Blessings he has given away abundantly; but not as a philanthropist. The unprecedented standard of living which the people of the United States enjoy to-day is due largely, as we have explained, to the development of the automobile industry. And Henry Ford, more than any other man, is responsible for that development.

To him, therefore, there are literally millions of people who owe much of the gains in health, comfort, leisure, and peace of mind, which have come to them as by-products of the automobile industry. In fact, it is doubtful whether any other man has done so much to make this present prosperity.

Within the important field of his own knowledge and experience, Mr. Ford has shown power of analysis, grasp of fundamentals, capacity for distinguishing what he knows from what he does not know, and contempt for mere opinions wherever scientific measurement is possible. He has, moreover, shown such initiative, vision, and courage that he has won admiration even from those who did not wish to admire him. In a thousand ways, he has skillfully adapted his own industry to the outside economic world upon which it depends.

It is only when he has stepped beyond the field of his own exact knowledge and illuminating experience, and attempted to show how to make over that outside world, that he has blundered. But we should not let the mistakes which he has made outside his workshop blind us to the truths which he has wrought on his own anvil. He may have fallen into error, in his fear that the Jews will acquire control of the world, in his naïve conception of the 'Money Power,' in his effort to abolish interest charges, in his condemnation of the gold standard, in his proposal to substitute an unworkable system of 'commodity money,' and in other theories which have been espoused by his *Dearborn Independent* — not 'The Chronicler of Neglected Truth,' but the Neglecter of Chronicled Truth. If, however, he has taught unsound economics in such ways, he seems to have done little harm thereby, for he has taught only in words; whereas he has done much good by teaching sound economics in actual practice.

Ford policies have helped to make us prosperous

Certainly he has helped by practicing the policy of high wages, low prices, and mass production. To be sure, he has not made wages so high, or prices so low, as he might have made them. That is evident from the fact that his prices have been enough higher than his wages to enable him to realize larger profits than any other manufacturer ever realized on anything. Nevertheless, he has had a large part in changing the attitude of the business world toward wages. Formerly, employers were always talking about the necessity for reducing wages; now they talk

about the necessity for reducing unit costs — not wages. Mr. Ford has helped them to see that it is bad business to destroy customers by reducing their purchasing power.

There is no doubt that business men know more about the relation of consumer income to their own success than they knew in 1921. At that time, in the midst of depression, they were determined to make matters worse by deflating wages in general. Fortunately, their program was successfully resisted by labor. Reduction of the general level of wages, as Mr. Ford has always insisted, is not a cure for hard times. On the contrary, it does more than anything else to prolong hard times. Employers, in their own interests, should pay as high wages as they can pay, and still expand their business on a sound basis. Mr. Ford is right: 'The best wages that have up to date ever been paid are not nearly as high as they ought to be.' [41]

But is it possible to pay higher wages? Usually it is. By clear precept and by dramatic example, Mr. Ford has helped us to see how to pay higher wages, by reducing other costs of production. In particular, he has shown how higher wages are made possible by enabling each worker to turn out more work per dollar of wages, through production in large quantities, which in turn is made possible by reduced selling prices. By resisting every influence brought to bear upon him to increase the unit cost of making his cars, by repeatedly increasing wages and reducing prices, he has taught the world its best-known and most convincing lesson in mass production.

No doubt his policies can be carried much further. Various industries, to be sure, are hampered by difficulties

with which the automobile industry does not contend; cotton manufacturing in New England, for example. It is difficult to see how Mr. Ford, during the past fifteen years, could have paid five dollars a day to cotton-mill operatives in New England, increased the output five hundred per cent, and sold the cloth at a price which would have covered even the wages. It is difficult to see how he could have increased the output of leather five hundred per cent by any method whatever; or how he could have sold the leather if he could have made it. Many other industries have troubles of their own which limit the extent to which they could profit by Ford policies. But even those industries would gain by a more courageous use of the high-wage, low-price, mass-production program. Certainly, that program has gone far toward enabling consumers to buy the products of industry and thus to keep industry prosperous. Certainly, that program can go further.

How far can the Ford program take us?

But can it go far enough? Mr. Ford insists that it can. He seems to think that producers need do little more, in order to create a full market for their increased output, than to raise wages and reduce prices. Again and again, he leaves the impression that the reason why the whole world does not become prosperous, and stay prosperous, is because — hampered by the 'Money Power' — it cannot or will not adopt Ford policies.

Mr. Ford is mistaken. It is impossible for manufacturers to make wages high enough or prices low enough to enable consumers to buy their products. It

would be impossible even if every industry in the country gained the full benefits of all the Ford policies, including the financing of expansion without resort to the banks and the 'Money Power.' High wages and low prices cannot go far enough.

How can they? Even Mr. Ford, with all his pride in the high wages he pays and the low prices he charges, has not for a single year paid enough to enable consumers to buy his cars; and in that statement, we include all the wages which he has paid, indirectly, to the workers who have supplied him with materials. We include more than that; we include every dollar he has paid for every kind of a cost. The total is less than he receives for his cars. Otherwise there would be no profits. Therefore, no cars.

In one breath, he takes pride in the fact that the expansion of his business has come wholly out of profits, and that he has so large a cash balance of accumulated profits that he is independent of the bankers. In the next breath, he asserts that he has provided customers for his product by paying high wages. The two statements are contradictory. If he had paid wages high enough to cover the sales price of his cars, he would not have a huge bank balance. He would have no balance at all. He would have no business at all.

'When you pump water out of a well,' says Mr. Ford, 'at a faster rate than the water flows in, the well goes dry. And when the well goes dry, those who depend on it, go thirsty.' It is equally true that when an employer pays out money as wages faster than money flows in from the sale of his products, his cash box runs dry, and those who depend on it go without jobs. 'It is the function of busi-

ness to produce for consumption and not for money,' says Mr. Ford. But the only way business can produce for consumption is to produce for money; and unless it gets enough money from those who consume its products, it stops producing.

The point that Mr. Ford has overlooked is this: Business activity cannot move to higher levels unless prices move to levels which are higher than all costs of production, including wages. No matter how high the plunger may push the floor of the elevator, it pushes the ceiling higher still. Wages and prices, like the floor and the ceiling of the elevator, move together, one always above the other — as long as business prospers, as long as the elevator works. The wages paid for producing the goods cannot catch up with the prices of the goods, any more than the floor of the elevator can catch up with the ceiling. That is why high wages, alone, cannot solve the problem.

There is a margin between the selling price of the product and all the wages which are paid in producing the product. Within that margin are included all the costs, other than wages, and all the profits. (See Figure 29.) It is true that any employer can put up his wages in so far as he can make them absorb that margin. Thus, under certain conditions, he can add to wages what he saves by reducing other costs. Under other conditions, he can reduce profits and to that extent increase wages. But it is equally plain that there is a limit beyond which he cannot go, for he cannot allow wages to absorb the entire margin without becoming bankrupt. Using to the utmost every means within his power, he cannot push total

wages up as high as total selling prices. Some margin still remains. That margin measures the extent to which high wages fail and always must fail to solve the problem of adequate consumer purchasing power.

There was a time, under monopoly conditions, when employers used to say, 'Never mind how high the costs are, we can recover them in the selling prices.' The new shibboleth is, 'Never mind how low the prices are, we can

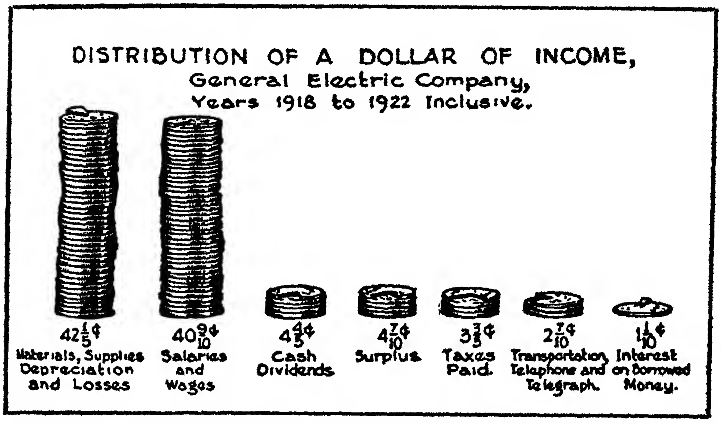


FIGURE 29. DISTRIBUTION OF INCOME OF THE GENERAL ELECTRIC COMPANY

take care of that by reducing unit costs, without reducing wages.' Manifestly there is a limit to that expedient. Up to a certain point, it brings benefits to all; but there is no magic in mass production which will carry it beyond that point. Ten minus one remains less than ten.

Mr. Ford himself is within striking distance of that truth when he exposes the error of the view that wages should absorb all the economies that result from invention, saving of waste materials, elimination of useless motions,

improvement of process, enlargement of output — in short, all the advantages that accrue from better management. Of course Mr. Ford is right. But unless the wages which are paid in connection with turning out a given product are high enough to absorb all the economies that result from better management, those wages are not high enough to buy that product. Consequently, high wages are not a solution of the problem of adequate consumer demand.

Thus, in terms of Henry Ford's policies, we have explained the theory which binds together the otherwise disconnected chapters of this book. And it will be observed by any one who has carefully read *Money* and *Profits*, that what we have said about the limitations of the Ford policies is fully in accord with the foundations which were laid in those two books.

Every wage-earner can see what the trouble is. He knows that by putting a jack under his car, he can lift the car higher and higher, notch by notch; but he knows that no matter how high he lifts the jack, the car goes higher still. Now, the price of any product, and the wages that are paid in producing it, must remain in the relation of the car and the jack. Otherwise, business cannot prosper. Consequently, putting up wages in Ford factories and all other factories never can give consumers enough money to buy the products of those factories. High wages cannot solve the problem.

Have we said that with tiresome repetition? Or is repetition justified when there are literally millions of workers to-day whose program for lifting their own standard of living is not much more than an attempt to keep

on lifting the jack until they get it higher than the car?

The fact that the workers are led to expect high wages and low prices to do what they cannot do, is an obstacle to progress. No doubt, Mr. Ford and the leaders of organized labor have the welfare of the workers at heart; yet they are urging the workers to follow them over a road that ends a long distance this side of the promised land. If the workers knew that the guide-posts were misleading, they would be on the lookout for new ones. As it is, they plod along over a road that will not take them where they want to go. It takes them in the right direction, it is true, but only as far as the sign, 'Road Closed.' And they do not know where to go next.

That is true whether production is on a large scale or a small scale; for mass production cannot solve the problem. On that subject, Mr. Ford does not carry his reasoning far enough. 'Suppose an industry,' he says, 'through efficiency and approved service, is able to reduce costs to the consumer. It gives the benefits of its improvements to its customers. If an article cost a dollar less to produce than formerly, a dollar comes off the price charged the consumer. By that process more people are able to buy. More buyers make a still larger business. A larger business still further reduces costs, which in turn increases the business still more.' That is true; but it also increases the profits, as it has done in Mr. Ford's own case; and, unless there is some offsetting influence, it thereby increases the deficit of consumer purchasing power.

That is clear from the arithmetic of the case. If a man-

ufacturer makes one car, which must be sold for a hundred dollars more than he pays as wages in making the car, the problem is: Where can consumers get that *extra hundred dollars?* If he makes a million cars, each of which must be sold for a hundred dollars more than he pays out in producing it, the problem is: Where can consumers get the *extra hundred million dollars?* Possibly, however, because of so large an output, the maker does not need to receive for each car a hundred dollars more than the cost of making it. Still he has to receive something. Suppose it is only ten dollars. Then the problem is: Where can consumers get that *extra ten million dollars?* Mass production solves many problems, but it does not solve the problem of adequate consumer demand.

That is true, even when higher wages result in higher output at lower unit costs. No matter how large the output may be, no matter how low the costs, the total output must be sold at a higher price than the total wages, plus all other costs, before there can be a profit. And unless there is a profit, prosperity cannot continue. Mr. Ford is in error, therefore, when he says: 'Country-wide high wages spell country-wide prosperity, provided, however, the higher wages are paid for by higher production.' Evidently that is not enough.

Sam Witham says mass production cannot solve the problem

Sam Witham explained all that one night so that his corner-store forum understood it perfectly.

'You see,' he said, 'it's this way. I am hiring you, Nathan, and your brother, Ted, to make maple syrup in my woodlot, up the river road. Now I have to pay you

four dollars a day to get you to do the work, and I'd be glad to pay you more. But no matter how much I paid you, I'd have to get more than that for the syrup, or I couldn't keep on hiring you.'

'Clear enough,' agreed Nathan.

'Well, then,' continued Sam, 'if I pay you two dollars in wages for every gallon you make, I must sell every gallon you make for more than two dollars. If I pay you three dollars, I must get more than three dollars. And that's the case with every other man who makes anything for sale. So all of them put together, no matter how high wages they pay, are obliged to get back for what they make, more than they pay people for making it.'

'Plain as the wart on Cy Plummer's nose,' answered Nathan. 'But what about this mass production that Henry Ford is talking about? Jest suppose you bought the woodlots all the way to Hayden's Corner, and hired more men, and gave us a Ford truck instead of old Dobbin and made a road clear through the woods, so it would be easy to empty the buckets. What then? I reckon you could pay us five dollars a day, instead of four, and sell the stuff for less than you do now, and still make a good profit.'

'That may be,' answered Sam, 'and if I could, it would be good for everybody. But don't you see that I would still have to get more for the stuff than I paid for making it, or else close out the business? It wouldn't matter how many gallons I sold.

'You recollect how somebody said that Cy Plummer's boy bought soda pop at six cents a bottle and sold it by the roadside for five cents; and when he was asked how

he could make any money doing that, he said, "Well, you see, it's 'cause I sell so many."

'Now, what if I did make a lot more syrup, and raise your wages, and put in improvements, and cut the price, and what if I cut my own profit on each gallon to twenty-five cents. That twenty-five cents would have to come from somewhere, wouldn't it? It wouldn't come from huckleberry bushes, and it wouldn't come from the high wages I paid.'

'That sure is a sticker,' Nathan admitted. 'I'll have to think that over and see if I can figger out where in heck that twenty-five cents can come from.'

Mr. Ford relies on other producers for his profits

While giving Mr. Ford all possible credit for his part in developing the automobile industry and thus promoting prosperity in general, we must add that the whole development would have been impossible if all producers had followed Mr. Ford's financial policies. That is true because the growth of business requires an expansion of the volume of money in circulation. A given volume of money, passing through given channels, with a given turnover, can take care of a given volume of business, and no more. Mr. Ford, however, has done nothing, directly, to bring about the necessary increase in the volume of money. He has merely taken from buyers of Ford cars, and used in enlarging his own business, the money which other men have put into circulation through bank borrowing, and through creating securities which served as a basis for bank borrowing.

That will be clear to any one who bears in mind that

Mr. Ford pays out no money except what he receives from consumers, for he does not borrow from the banks and he sells no bonds or stocks. In fact, he does not pay out even as much as he receives from consumers, for he accumulates large cash reserves. Plainly, employers as a whole could not follow that policy; for they would not *all* continue to receive from consumers more money than they paid to consumers, when — as is always the case in the United States — consumers have no other source of income.

Those who praise the Ford policies sometimes give the impression that the only reason why the country is not far more prosperous is because other employers are too stupid, or too greedy, to adopt the Ford policies. As a matter of fact, Mr. Ford himself could not possibly have carried out his own 'no bank borrowing' policy, unless other business men, including many of his own agents throughout the United States, had carried out an essentially different policy. In the world as it is, money actually has expanded, and had to expand, as a part of the process of business expansion; and Mr. Ford has done nothing, directly, to bring about that expansion.

'The present monetary system,' says Mr. Ford, 'tends to block instead of facilitate production.' He is right. That is precisely what the present system does — at times. 'We have evolved a system,' he continues, 'that, instead of being a convenient medium of exchange, is at times a barrier to exchange.' Again he is right. Nowhere, however, in his numerous denunciations of our money system — including his proposal to abolish the gold standard and substitute commodity money — has he

shown precisely how our money system blocks production and the exchange of goods. Nor has he explained how it happens that the very system which he condemns has enabled him and the country as a whole to prosper so bountifully during the past few years.

Indeed, it seems never to have occurred to him that his own use of the money system, by tending to cause a shortage of consumer income, tends to retard the exchange of goods, and thus to retard the production of goods. The villain in the play is always some other actor, usually that shadowy ogre, the 'Money Power.' There is just as much reason to fear the bogey man; for that ogre is just as real, just as easy to find, just as much of a menace. The real trouble is the deficit of consumer purchasing power. That deficit, which arises in part out of Henry Ford's own method of financing business, is offset at times by the expansion of bank credit, which takes place in connection with the very methods of financing business which Mr. Ford condemns.

And — we repeat — those very methods have made Henry Ford's profits possible.

'It is wholly desirable,' he says, 'to reshape business on the basis of service. Then a better financial system will have to come.' Numerous remarks of that kind show that he understands neither the strength nor the weakness of our methods of financing production and distribution. It is not lack of service that hangs up the wheel of industry. Some of those producers who are rendering the very highest service — and high among them is Henry Ford himself — are nevertheless using our money system in such a way as to put upon others the burden of sup-

plying consumers with enough money to keep business prosperous.

Mr. Ford goes along with us when he declares that no nation can progress 'until the ability to consume is brought up and kept up to an equality with the ability to produce.' But he leaves us — and we think takes the wrong road — when he adds that the way to bring about that equality is to replace the profit motive with the wage motive. He is on the wrong road, first, because the profit motive is the only one which has ever driven business forward at a sufficient rate to raise the standards of living of large numbers of people. Every successful business man, including Henry Ford himself, has been spurred to greater efforts by the ambition to make profits; and unless he has realized that ambition, he has gone out of business. True, he has also been inspired by the desire to serve. But, as Mr. Ford's own experience shows, there is no necessary conflict between the desire to make profits and the desire to serve. The wage motive, moreover, is not enough to enable people to consume as much as they can produce. To repeat, even if all producers adopted Mr. Ford's policies in their entirety, wages would not be high enough or prices low enough to keep ability to consume on a level with ability to produce. Again, we must conclude: High wages and low prices cannot solve the problem.

Nor can we provide business with more buyers by providing workers with more time in which to buy. More leisure they certainly ought to have; but we cannot agree with Mr. Ford in his contention that increased leisure means increased consumption. An 'extra day of leisure,'

he says, 'is going to bring large results, for the people will learn more about living, will have time to expand their sense of need, and therefore will increase their consumption.' Their consumption of Ford cars, no doubt. But that is not his argument; he contends that they will increase their *total* expenditures.

The fact is that wage-earners as a whole already have plenty of time in which to spend all the money which they have to spend; and there are already plenty of things which they would like to buy. They cannot buy these things with free time. Leisure is not legal tender. Whatever may be said in favor of reducing the hours of labor, it cannot be said that it will increase consumer buying. Workers with a five-day week will spend more money than workers with a six-day week — if they have larger incomes. Otherwise, they will not.

Mr. Ford says that attempts to regulate wages on the basis of what somebody has figured out as 'the cost of living' get us nowhere. On that point, Mr. Ford is right; and the American Federation of Labor is right. Such a figure, in any given case, is certain to be too high or too low. Suppose some sociologist or statistician tells us that the cost of living for the average family is $1890. The 'average family,' by the way, is nothing but a mathematical abstraction. No wage-earner ever has to worry about supporting an average family; it is his own family that he has to support. That, however, is only an incidental objection. The main point is that every employer, for his own good, as well as for the good of the community, should pay more than the prescribed $1890 if the conditions of his business permit. But if conditions

which he cannot control do not permit, he must either pay less, or go out of business. He has no other choice. Sometimes, for the common good, going out of business is the best thing he can do. But not always. Certainly, he ought not to go to the wall, and throw all his employees out of work, merely because somebody who knows nothing about his business has told him what wages he must pay.

Mr. Ford is right, too, in his assertion that the way to greater economic progress is *not* the way of greater thrift — innumerable bankers, economists, teachers, and preachers to the contrary notwithstanding. Suppose our thrift campaigns suddenly became much more effective. Suppose all the people saved an additional tithe of their incomes. Suppose exhortations to save suddenly became as effective in persuading people with money not to buy, as other campaigns have been in persuading people without money to buy on instalments. There is no doubt what the result would be! Gloom throughout the business world, orders canceled, plants shut down, millions thrown out of work, and all the suffering of another period of hard times.

Fortunately, the natural desire of the people to consume, increased by the urging of the advertisers, and made effective by instalment selling, has largely offset the thrift campaigns. Otherwise, our present prosperity would have been impossible. Mr. Ford sees that clearly enough. He sees that there is a Dilemma of Thrift, as far as *individual* savings are concerned. He sees the effect on the sale of Ford cars. The point he does not see is that *corporate* savings are a still larger factor in the Dilemma.

Our views on that subject, which are an essential part of every chapter, we here summarize: Both individuals and corporations must save and ought to save; otherwise there would be no dilemma. Renouncing the ancient virtue of thrift is not the way out. What we must have is a modification of our present system which will enable every one to save as much as he pleases, in ways which best suit his individual interests, without thereby frustrating the social object of thrift. For that purpose, we need a definite, controlled, dependable method of offsetting the deficiencies in consumer buying which at present are caused by savings.

Why not study the causes of prosperity while we are prosperous?

To find the right method, we must subject business to the painstaking study which has been lavished on the Ford car. If business men would give just as rigorous study to that precarious automobile which we call the Industrial System; if they would study it now, while it is going fairly well, at rather high speed, in order to find out precisely why it is running better than it used to run, and precisely what kind and quantity of fuel and oil must be fed to the machine to keep it in good running order, there is no reason why they should not discover how to keep it gliding along, over fairly level roads, hitting on all cylinders, year in and year out.

That thought is one which, from the outset, we have intended to bring into the limelight — if we could produce any limelight — just before the curtain fell. Now we find that Mr. Ford has produced the light and focussed it for us.

'The best time to study our economic machinery,' he rightly says, 'is lost because, when affairs are "prospering," the majority are so interested in getting the utmost out of the machine that they will give no time to improving it as it runs. The only time that we stop and seriously look at our economic machinery is when it breaks down. . . . The best way to get a line on the machines is to watch them when they are working at supposedly highest precision.

'And that is what we refuse to do. Even our economic observers watch the progress of business mainly to foretell symptoms of breakdown. It is now an established business to keep a lookout for signs of hesitation or collapse, so that those who pay for the lookout may run for cover first. But no one pays for, indeed most resent, service that looks toward prevention of breakdown by attention to the system while it is working full speed. . . .

'The responsibility always rests upon those in charge, and they happen to be labelled "conservatives." . . . In the past . . . they have shown their ability to make our crazy-quilt economics yield more square meals and more independence and more homes for more people than has been done anywhere else in the world. It is clearly up to them now, as trustees, to show what they can do further in the way of making our system fool-proof, malice-proof, and greed-proof for the benefit of every person in the land.'

In conclusion, let us say again, what is most needed to

attain that end is the right flow of money to consumers. Unless that flow is right, it is *useless* to plead with employers to pay wages high enough to sustain prosperity; they cannot do it. If the flow of money is right, it is *needless* to plead with employers to pay high enough wages; they will do it in order to serve their own interests. The right flow cannot be induced by the high-wage, low-price, mass-production program. The right flow does come at times because, as we explained in our discussion of the automobile industry, there chances to be a sufficient expansion of capital equipment, involving a sufficient expansion of the volume of money, to provide the people, in connection with preparation for *future* production, enough money to buy the output of *current* production.

Must the world continue to depend on chance? We do not take that hopeless view; we do not believe in the Economics of Despair. We are confident that we can propose a simple, feasible, and immediate way out of the Dilemma of Thrift — a way to save and thrive — a cure for business depressions — a means of enabling the people as a whole to gain greater and more durable satisfactions out of the marvelous machinery of modern business. That is the subject we discuss in 'The Road to Plenty.'

THE END

APPENDIX

APPENDIX

NOTES TO ALL CHAPTERS

Since *Business Without a Buyer* is based on the authors' *Money*, Pollak Publication, Number 2, Boston, 1923, and on their *Profits*, Pollak Publication, Number 8, Boston, 1925, numerous references to these books are given below.

1. The fact that demand for producers' goods is secondary to demand for consumers' goods is discussed in *Profits*, pp. 370–72.
2. Arthur D. Little, 'The Fifth Estate,' *Atlantic Monthly*, December, 1924.
3. Paul H. Douglas, *Real Wages*, Pollak Publication, Number 9, Boston, 1927.

   Weighted indexes of the relative money hourly wages in towns of the 1890–99 average were computed for each industry. The resulting index for each year was then divided by the index of the cost of living, and thus an index of real hourly wages was secured. These indexes for the various industries were then weighted by the relative numbers employed in each, and a weighted average for the industries as a whole was thus secured.

   A full statement of the sources used and methods employed in constructing these indexes is given in *Real Wages*.

   See, also, *Wages and Hours in American Industry*, National Industrial Conference Board, Inc., New York, 1925; and *Income in the United States*, National Bureau of Economic Research, New York, 1922.
4. See Note 3, above.
5. Concerning unemployment, see J. Morgan Rees, *Unemployment as an International Problem*, London, 1926.
6. A review of theories concerning business cycles is given by Wesley C. Mitchell, in *Business Cycles*, Berkeley, California, 1913.
7. Chapters III and IV give briefly the argument which is developed at length in Chapters XX to XXX of *Profits*.
8. The subject of this paragraph is discussed at length in Parts I to IV of *Profits*.

9. Other discussions of the causes of inadequate consumer buying are found in:

John Gray, *The Social System*, London, 1831;

John Gray, *An Efficient Remedy for the Distress of Nations*, London, 1842;

Uriel H. Crocker, *The Cause of Hard Times*, Boston, 1896;

Oswald St. Clair, *Low Wages and No Wages*, London, 1908;

C. H. Douglas, *Economic Democracy*, New York, 1920;

C. H. Douglas, *The Control and Distribution of Production*, London, 1922;

C. Marshall Hattersley, *The Community's Credit*, London, 1922;

J. A. Hobson, *Economics of Unemployment*, London, 1922;

H. B. Hastings, *Costs and Profits*, Pollak Publication, Number 3, Boston, 1923;

H. Abbati, *The Unclaimed Wealth*, New York, 1924;

P. W. Martin, *The Flaw in the Price System*, London, 1924;

P. W. Martin, *The Limited Market*, London, 1926.

See C. F. Bickerdike, 'Individual and Social Interests in Relation to Saving,' *Economic Journal*, September, 1924; pp. 408–22. See, also, Virgil Jordan, 'Is the United States Saving Too Much?' *Baltic Scandinavian Trade Review*, Copenhagen, May 20, 1925; and *The New Age*, London, June 4, 1925.

See Edgar J. Rich, *A Fundamental Principle of Political Economy*, Hyde Park, 1892. This pamphlet of fourteen pages, which came to our notice after *Profits* was in type, is an interesting attempt to expound this proposition: 'A cause of industrial depression is too rigid economy on the part of the individuals of a community — an economy which is induced by a desire to purchase interest-yielding investments.'

10. Figure 5 is based on a chart prepared by the American Telephone and Telegraph Company to show fluctuations in the state of business activity. Fluctuations in the volume of trade are less extreme. Nevertheless, the economic losses to society due to the failure of consumption to keep pace with production are far greater than statistics of the volume of trade would seem to indicate; and not all the losses are economic. Figure 5 does not make even the economic losses due to recurrent business setbacks appear as large as they are. See Figures 2 and 4.

The base line and the top line of Figure 5 are drawn so that the

chart shows roughly, as explained in the text, the relation between the actual achievement of industry and the achievement which would have been possible had maximum prosperity been maintained.

See, also, J. A. Hobson, *Economics of Unemployment*, London, 1922; pp. 23–25.

11. John P. Frey, in the *Federationist*, January, 1926.
12. The universal fear of overproduction is the subject of Chapter XXII of *Profits*.

    See, also, P. W. Martin, *The Flaw in the Price System*, London, 1924; p. 11. P. W. Martin, *A Limited Market*, London, 1926, and Dennis H. Robertson, *A Study of Industrial Fluctuation*, London, 1915; p. 1.
13. Herbert Hoover, *The New Republic*, December 29, 1920.

    See, also, Garet Garrett, *Ouroboros*, New York, 1926.

    The complaint of a limited market is not new. John Gray, in his *Social System*, published in London in 1831, said: 'A market! A market! is the everlasting cry from one end of Europe to the other; we have subsistence in plenty, and nobody can be found to buy it fast enough.'
14. Carter Glass, in the United States Senate, January 16, 1922.
15. See *Profits*, Chapter XXI.
16. There is further discussion of this matter in *Money*, pp. 277–83; and in F. Lavington, *The Trade Cycle*, London, 1922; p. 30.
17. See *Money*, Chapter XII.
18. How this applies to the financial policies of Henry Ford is explained in Chapter X.
19. A falling price-level, as a solution of the problem of inadequate consumer demand, is discussed in *Profits*, pp. 302–05.
20. Corporate savings are discussed in Chapter XXIV of *Profits*, and individual savings in Chapter XXV.
21. 'Money Advanced in Production' is the subject of Chapter XVI of *Money*.
22. The reason why high wages alone cannot solve the problem of inadequate consumer demand is discussed in Chapter X.
23. See *Money*, Chapter XII.
24. *Instalment Buying*, a pamphlet published by the Farmers' Loan and Trust Company, New York, 1926.
25. For statistics pertaining to the automobile industry, see *Facts and*

Figures, published by the National Automobile Chamber of Commerce, 366 Madison Avenue, New York, 1926.

For a comparison between the growth of the automobile industry and the growth of the building industry, 1919–26, see Thomas S. Holden, *Building Contracts and Business Movements*, F. W. Dodge Corporation, New York, 1927 (a paper read at the annual meeting of the American Statistical Association, St. Louis, 1926).

26. See Figure 11. Allowance is here made for the fact that part of the increase in savings came from accrued interest.
27. There is an excellent discussion of instalment selling in *Standard Daily Trade Service*, Standard Statistics Co., Inc., New York, January 11, 1926. See, also, John J. Raskob, in *Proceedings* of the Academy of Political Science, New York, 1926; C. C. Hanch, 'Financing Motor Vehicle Instalment Sales,' *American Bankers' Association Journal*, June, 1926; Arthur Pound, 'The Land of Dignified Credit,' *Atlantic Monthly*, February, 1926. The best comprehensive study of instalment selling is a report to the American Bankers' Association by Milan V. Ayres, 1926.
28. See Note 25, above.
29. B. E. Geer, quoted in *Instalment Buying*. See Note 24, above.
30. See G. Harvey, 'Honorable Mussolini, Whither and When?' *North American Review*, June, 1926.
31. See Hugh Farrell, *What Price Progress?* New York, 1925. (Pamphlet published by the Chemical Foundation, Inc.)
32. *Bank Catechism*, Guaranty Trust Company, New York, 1920.
33. W. L. Clause, 'Shall We Be the World's Bankers?' *Nation's Business*, December, 1925. This is an admirable article to read in connection with Chapter VIII. For statistics of our foreign trade, see *International Balance of Payments*, published annually by United States Department of Commerce.
34. See Note 13, above.
35. *Congressional Record*, 69th Congress, 1st Session, February 20, 1926, regarding House Bill 7895.
36. The effects of inflation and deflation are discussed in Chapter V of *Money*.
37. The effect of Federal Reserve policies on economic progress is further discussed in 'Business Conditions and Currency Control,' *Harvard Business Review*, April, 1924.

    The fact should be noted that the Reserve Banks do not have

the same opportunity to influence the price-level through the purchase of acceptances as through the purchase of United States securities, since in the case of acceptances they do not have the same freedom to buy or not to buy.

38. See Note 3, above.
39. The objections to Government control of individual prices are discussed in Chapter XI of *Money* and in Chapter XIX of *Profits*.
40. See Chapters III and IV, above.
41. The quotations from Mr. Ford in Chapter X are from Henry Ford, in collaboration with Samuel Crowther, *To-day and To-morrow*, New York, 1926.

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